

# OUR OWN TIMES


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In Memory of  
**George Malcolm Smith**  
Professor of History, 1931-1947  
Dean of the Faculty of Arts and Science  
1938-1945

G. M. Smith

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# OUR OWN TIMES

“When we have studied phenomena, we may obtain knowledge; when we have attained knowledge, we may acquire goodwill; when we have acquired goodwill, the heart is chastened; when the heart is chastened, man is cultured; when man is cultured, order reigns in his family; when order reigns in his family, it reigns also in his country; and when order reigns in every country, peace reigns in the world.”

*From the Great Teaching of Tseng-Tsan, a disciple of Confucius.*

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# OUR OWN TIMES

1913-1934

*A POLITICAL AND ECONOMIC SURVEY*

*by*

STEPHEN KING-HALL

VOLUME I

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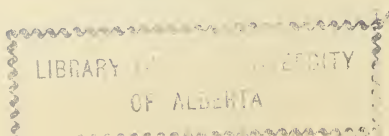
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## ACKNOWLEDGMENTS

THE first purpose of this note is to express my appreciation of the invaluable services I have received throughout the preparation of this book from my two helpers, Mrs. L. K. Scott, B.A., and Miss J. Taylor. The former has worked indefatigably at the task of collecting and arranging material and has been a useful and constructive critic. Miss Taylor, in addition to assisting her colleague, has admirably carried out the hundred and one minor but essential tasks of checking and counter-checking; of taking charge of the administrative details inseparable from a work of this size. Without the help of these two ladies *Our Own Times* could not have been written by me. I am also indebted to several of my colleagues at the Royal Institute of International Affairs for their advice and criticism in connection with various parts of the study. To the Institute itself I owe the fact that as the Secretary of its Study Groups Department I have been given the opportunity during the past five years of meeting and listening to the views of many of the world's foremost authorities upon economic and political questions. To serve Chatham House is in itself a continuous education and provides one with opportunities for studying international affairs which are invaluable as preparation for writing a book of this nature.

Since my department at Chatham House is responsible to the Council of the Institute for the Study Group reports on various international problems which are published by the Oxford University Press, I take this opportunity of

## ACKNOWLEDGMENTS

making it clear that the Institute is in no way connected with this publication. For the views expressed in this book I am solely responsible.

It is impossible for me to do more than make a general acknowledgment of my debt to all the authors whose books I have read with profit. There must be two exceptions to this rule, and one is provided by those invaluable volumes compiled by Professor Arnold Toynbee and his assistant, Miss Boulter, which are known to every student of international affairs as *The Annual Surveys*. The other exception is the collection of League of Nations publications, particularly the annual *World Economic Survey*.

S. K.-H.

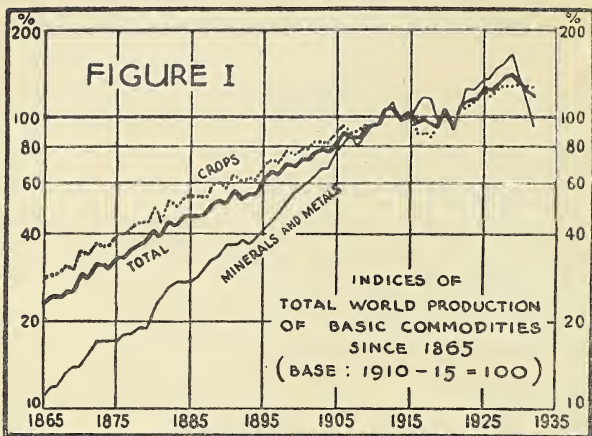
*September 1934.*

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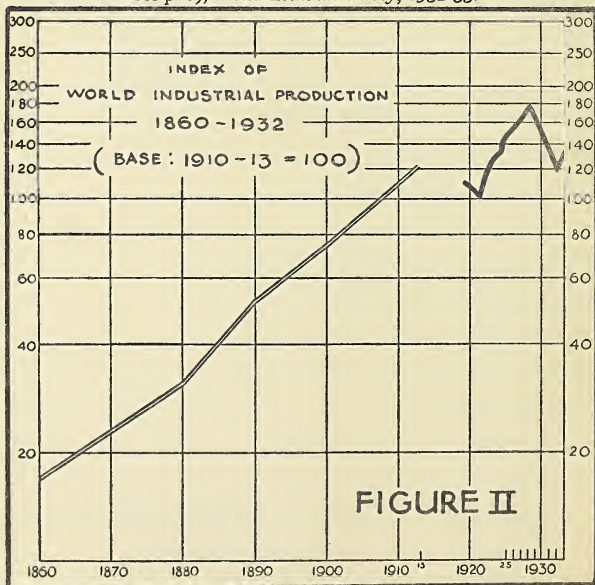
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# WORLD ECONOMIC PROGRESS

[XIXTH CENTURY]



See p. 69, *World Economic Survey, 1932-33.*



See p. 70, *World Economic Survey, 1932-33.*

# OUR OWN TIMES

## INTRODUCTION

"There is no doubt that Mankind is once more on the move. The very foundations have been shaken and loosened and things are again fluid. The tents have been struck, and the Great Caravan of Humanity is once more on the march."—GENERAL SMUTS, 16.12.18.

See *History of Peace Conference*, Vol. III, p. 54.

WE live in exciting times, and one of the elements of our excitement is a great uncertainty as to the future way of the world. Practices and principles for long held sacred have been cast out of the political and economic temples and a huge question mark curls in menacing fashion over mankind.

Though it is difficult to form judgments as to the future, that task is made immeasurably harder if prophetic exercises are conducted in a vacuum as regards the past. However strange and unusual; however foolish or wise may be the politics of the human race in the times to come, it is certain that they will be related in some way to those of the past.

"Whither mankind?" can only be guessed and perhaps planned with any hope of accuracy or chance of success in terms of "Whence mankind?"

The purpose of this book is to make a "political-economic" picture of world affairs as they have developed during "Our Own Times." The title of this book has been taken to mean the period between the years 1913 and 1934 with such spilling over into remote past and immediate future as seemed necessary to smooth off jagged edges.

When this project first began to take shape in my mind in 1932 there seemed to be two possible methods of dealing with the immense volume of documentation, fact and opinion which lay in the libraries and files. Either one

could attempt to write an impressionist study in the surrealist style, a book conspicuous for its uselessness as a work of reference, or else one could attempt to write what has become known as "a factual statement"; a book which would never be read. Whilst watching the filming of a play of which Ian Hay and I were joint authors, another idea came into my head. I noticed that far more feet of film were "shot" than ever appeared in the finished picture, and so I decided to imagine that my mind was a cinema camera. I would let it move about amongst the voluminous mass of historical material and sometimes I would take a close-up of a man or an event, or a policy. This done, I would "truck" the camera away and take a long-distance view, or a picture from an unusual angle. Then I would build up my final film with such arrangement of "close-ups and details" and of "long-range shots" as seemed best calculated to make an arresting yet accurate picture. This has been my method, and it is hoped that the result is a book which, whilst not without value as a work of reference, can also be read as a living story of the wonderfully dramatic events of *Our Own Times*.

In order to give the book a backbone, search was made for a central and continuous theme sufficiently comprehensive to allow of the whole story being related thereto. The theme chosen was the problem of Man and Himself, a problem most sharply expressed in the perpetual clash between man's yearning to co-operate with his fellows and his passion for conflict and competition. At the beginning of the book we see this problem leading man down the path which ends in War. Throughout the study we record the swaying fortunes of the struggle between the forces of co-operation and those of competition. At the end of the book the issue is still in doubt.

The book is published in two volumes. It was not easy to decide where to end Volume I. From the chronological point of view the claims of the period 1925-26 were strong, for it was about this time that there was—as we shall show—a remarkable and almost universal political and economic recovery from the aftermath of the War. But this water-

shed between the rivers of War and those of Peace was more apparent than real. It was a mirage-watershed which concealed for a few years the grim realities which later took shape in the form of the economic crisis and its political consequences. Looking at the matter from the point of view of events rather than dates, the claims of the economic crisis as the principal phenomenon of the post-War period were without rival. A close examination of this crisis led me to suppose that no single event therein was more significant than the abandonment of the gold standard by His Britannic Majesty's Government on the 21st September 1931. So far as one is justified in using sweeping generalizations, I believe that this event may be considered as marking the end of the nineteenth century. It is for this reason that Volume I closes with a description of the death of the gold £1.

Having said this, it is necessary to explain that it seemed unwise and probably impossible to confine to Volume I all events antecedent to the second departure of Great Britain from the gold standard, and to put all the rest into Volume II. For instance, there will be found in Volume I a chapter on Modern Turkey. It would have been pedantic to interrupt the story told therein at the point reached by 1931. The chapter in question has therefore been taken up to the end of 1933 in order to avoid a second and quite superfluous chapter on Turkey in Volume II. The ground covered by Volume I is set forth in the Contents sheet, but it will be as well to indicate here something of what will be found in Volume II.

In it we shall deal with the events which occurred during the period 1931-34. It has been a period during which the states have busied themselves with policies of nationalism in their attempts to extricate themselves from a world system gripped by the economic crisis. The National Government in Great Britain; the Nazi regime; the Roosevelt experiment; the Mexican and Turkish plans, are typical examples of this phenomenon. But, however hard the nations tried to be self-contained and isolationist in matters political and economic, some measure of inter-

## *Our Own Times*

national activity was essential. The nature of the international relations between the states during the closing years of *Our Own Times* was of a twofold character. On the one hand there were international activities whose genesis had occurred during the period 1919-31, before nationalism became the dominant motive of policies. On the other hand there was a type of international activity which became necessary partly as a result of the failures of policies begun before 1931; partly as a result of the internal changes which took place in national systems. In order to deal with this somewhat complicated mixture of events and policies, Volume II has been divided into three parts. Part I has been reserved for an account of national policies during the period 1931-34. Part II is concerned with international relations during those years. At the end of this part will be found a chapter which deals with the League of Nations (including the International Labour Organization and the Permanent Court of International Justice) both from the points of view of organization, function and the use made of these institutions during *Our Own Times*. Volume II is brought to a close with Part III, in which will be found the conclusions to which I have been led by this study, a chronology of "*Our Own Times*" and a selected bibliography.

STEPHEN KING-HALL.

HARTFIELD HOUSE,  
HEADLEY, HANTS,  
*Sept. 1934.*

## CHAPTER I

### PRELUDE <sup>1</sup>

"Time is a sort of river of passing events, and strong is its current ; no sooner is a thing brought to sight than it is swept by and another takes its place, and this too will be swept away."

MARCUS AURELIUS, *Meditations*.

#### 1. *The Problem*

THOSE who have lived through the period 1913-33 have filled the role of spectator and actor in an episode of the drama of Man and Himself<sup>2</sup> unprecedented in the scale and speed of its development.

It has been suggested<sup>3</sup> that perhaps in the third and fifth centuries of the Christian era, two periods during which the Roman world staggered suddenly and visibly towards its ultimate fate, we can find historical precedents for the mighty upheavals which have made our own times of 1913-33 so desperately exciting. But—as the same authority reminds us—the "grandeur" of Rome was limited in its scope, though held by its creators to be of universal and supreme importance. The Chinese laboured under a similar delusion from the earliest times up to the beginning of the twentieth century.

In contrast to the localized affairs of Rome (or China) the drama to be described and interpreted in this book has had the world for its stage and all mankind for its cast. Ever since those dim and remote ages when man first began to walk erect, he has been organizing himself into societies the better to achieve his primary necessity, which is that of keeping his body alive. In the concluding chapter of

<sup>1</sup> The student should study Arnold Toynbee's wonderful work, *A Study of History*, Oxford Press. The first three volumes appeared in 1934.

<sup>2</sup> "The first man is of the earth earthy ; the second man is the Lord from Heaven."—1 Corinthians, xv.

<sup>3</sup> *Survey of International Affairs*, 1931, A. Toynbee. Oxford Press.

this book we shall have more to say upon the relationship between this problem of body-keeping and the events of our own times. Here we need only note that side by side with experiments in politics and economics having as their purpose the solution of the great material problem of life, man has also been engaged upon a heart-breaking search for spiritual peace. He has groped for the right way of life, to the attainment of which end material wealth is but a means. Buddha; Confucius; Jesus Christ; the Prophet Mohammed have pointed their several ways. The first and the third have presented men with the problem of finding earthly peace by escape from things earthly. These two teachers emphasized the fact that man's fundamental problem was Himself. This deep problem has been reflected as much in the material side of man's life as in his spiritual existence. It is a main conclusion of this book that the chief significance of *Our Own Times* is that they mark the closing years of the long period during which the urgency and the difficulties of the material problem necessarily overbore those of the spiritual problem and relegated it to a second place in men's minds.<sup>1</sup> For this reason we suspect that in "*The Times to Come*" the non-material aspects of life will engage an ever-increasing share of men's mental and bodily activities. The keynote of the past has been Work;<sup>2</sup> that of the future will be Leisure.<sup>3</sup>

As our vision of the restless and evolutionary processes of human history emerges from the darkness which covers primitive man into the foggy twilight of written records and so to the over-bright glare of personal experience, two conclusions stand out from a mass of detail.

The first is, that although it has cunningly contrived to assume as many disguises as there have been years of time, the nature of the problem of Man and Himself, both in

<sup>1</sup> The "long period" may have begun half-way through the paleolithic age.

<sup>2</sup> By work is here meant "Production of wealth primarily for consumption and only secondarily for the sake of creating something."

<sup>3</sup> It should be, but is unfortunately not, unnecessary to remark that Leisure does not mean blank idleness. Leisure is time employed in work (physical and/or mental) done primarily for the joy of achievement.

## *Prelude*

its material and spiritual aspects, has always been the same. It has been the need of making a choice between self and selflessness; hatred and love; taking and giving; competition and co-operation; the short view and the long view; nationalism or internationalism. The second conclusion is that until about the latter part of the nineteenth century men were attempting to solve their problem in the isolation of detached groups.

The whole history of man is on the one hand the story of the clash between his co-operative and competitive instincts, and on the other, the story of how the consequences of this clash through the ages have progressively brought him face to face at last with the inescapable truth that just as the problem of Man and Himself is universal in its application, so also is there but one mankind and one earth from which there is but one universally dreaded way of escape.

The story of the clash referred to above is, in one respect, a story perpetually repeated, whether its setting be the tribes of primal times; Empires brightly patterned of Egypt, Crete, Babylon, Greece, Rome, India, China, Mexico; or the steel and iron nations of the latter-day New and Old Worlds. It is a story of man searching for a compromise. A paradoxical desire to co-operate competitively; to mix oil and water; to control and be uncontrolled; to be anarchic and social. The theme of this story has been the same, but the stage has been revolving, and with each succeeding act the scenery and the setting displayed at the rise of the curtain have been more elaborate, more nearly composed of the whole human and material resources of the globe, until when the curtain rose in preparation for the presentation of the events which were to make 1914 so memorable a date, the stage of world affairs presented a universal picture for the first time in human history. The many-coloured pattern which the gods, using man as their undiscerning shuttle, had been weaving for so many centuries was complete at last. By 1914 the political and economic activities of the human race, of all the white, yellow, brown and black men and those of blended colour

between the racial frontiers, had been integrated by countless visible and invisible forces and influences.

The World and its inhabitants were potentially, and in many respects actually, ONE. It was the end of the first chapter of the creation.

## *2. Western Civilization*

Men of imagination had visioned this event in bygone days; a few great leaders of thought had striven to bring it into existence upon the spiritual basis of religion; other great men skilled in the arts of war and administration had tried to build up the Universal Kingdom on Earth. They had failed for the lack of sufficient scientific knowledge. Science with its mastery over the forces of Nature was the key to the door beyond which lay world unity; without the aid of science the task was technically impossible owing to the physical vastness of the earth, the helplessness of a naked man and the miserable shortness of a human life.

Science, the catalyst which made possible the unity and brotherhood of man, also profoundly affected the assumptions upon which man had erected his social system, since it was science which by the end of our own times had shown that the problem of body-keeping in so far as it was one of creating wealth, could easily be solved. Science, especially applied science, blossomed forth as a product of the western world.

At the Renaissance there sprouted in Europe a growth which germinated during the dark ages chiefly from seeds of Grecian origin planted in Roman soil. This growth, which must for practical reasons of space be arbitrarily labelled "Western Civilization," was destined to spread all over the world.<sup>1</sup> The spread of western civilization, the great crusade in which the white man both discovered and conquered the world, was a business which proceeded unevenly for several centuries. It moved

<sup>1</sup> It spread like the banyan-tree, whose branches reach outwards and then drop shoots to the ground, which there take root and so support the parent branches. By this method the tree covers much ground.

like the rising tide of a storm-tossed sea. The sea was stormy because the white men struggled and fought amongst themselves as to which of their political groups should direct the process of "civilizing" the coloured peoples. Portugal, Spain, Holland, each had their day and France and England were long locked in a struggle for supremacy. But these affairs seen in perspective were but incidental waves which only modified the rate and direction of the rising tide. By the beginning of the twentieth century, western civilization had risen to flood level. The homes of three rival civilizations—those of Islam, India and China—were still partially above water, but they were undergoing a rapid and obvious process of disintegration as the remorseless waves from the West beat upon their ancient and static shapes. It was clear at the beginning of the twentieth century that the climax, the triumph of the western way of life had arrived. It had created a new, numerous, and active society in North America, whilst the Spanish-Portuguese version of western civilization was in control of South America. The Middle-East was in the grip of the Europeans and Turkey was awaiting her fate. The whole of Africa was under western control. India had its British viceroy and Indo-China its French governor-general. China was—but here, to quote the words of a writer in a vernacular paper in 1898—"The foreign nations are all greedy, and are preparing to cut up the Chinese melon. . . . China must be on the alert and reform herself, and must guard against aggression." The nature of these reforms was clear to the revolutionaries, who eventually overthrew the Manchu dynasty because of its palpable inability to resist the pressure of western civilization. The young Chinese had in front of their eyes the example of Japan which had only succeeded in avoiding the acquisitive belly of western civilization by a process of hasty westernization, which provided her with a set of sharp teeth in the shape of a navy (made in Great Britain) and an army (made in Germany). White Australia and New Zealand complete the general picture of the universality of western civilization at the

beginning of the twentieth century. How to account for this spectacular triumph? The answer to this question is that western civilization based its appeal and enforced its claim to supremacy on the grounds that it could solve the material problem of life better and quicker than any of its rivals.

At the time when western civilization was about to achieve dominion on earth the fundamental problem of man was still that of wealth production. The acquirement of wealth for the feeding, clothing and housing of his body was still as it had always been the first duty and primary anxiety of man. It was because it opened up prospects of solving this problem with a completeness and speed which had been unimagined by humanity from the dawn of history to the seventeenth century, that this new scientific civilization was so supremely attractive. As a means to the end of material production western civilization had no rivals. It conquered nature and harnessed natural forces to its purposes. It was a dynamic and virile system infected with a restless urge called progress. It could not leave well alone, for there was never a better that could not be made a best. It was a competitive and pugnacious civilization as befitted something that was a parvenu compared to those in India and China, or the still more venerable river civilizations of the Middle-East, which were but memories before the white men knew the meaning of cultured life. Broadly stated, the difference between western civilization and those of the East which it overran was that the purpose of the former was "to act," whilst that of the latter was "to be." To the West the means were so important that they often overshadowed the ends; to the East the ends of life seemed so important that the necessary means were neglected. It was because the West sought wealth by taming nature, that mistress mankind had vainly wooed through centuries, and served with endless toil for niggardly rewards, that the forces of the West, as they moved restlessly across the oceans, the forests, plains and deserts of the earth and cast bold and covetous gaze upon the still unconquered skies, left by their passage an imprint that was mainly economic.

## Prelude

But before we sketch the picture of western civilization conquering nature and thereby taking humanity into a seductive and deadly embrace from which it has been struggling to escape during "Our Own Times," something must be said of the national state; the institution which acted as the political host and carrier of western materialism.

### 3. *The National State*

At the Peace Treaty of Westphalia (1648) the political institution known as the national state emerged in its modern form from the test-tube in which the notions of feudalism had been bombarded by the disintegrating atoms of the Reformation. The national state became the framework of political security which filled the void left by the disappearance of feudalism and the Church Universal, two unifying forces which had failed to coalesce in the Holy Roman Empire.

The institution of the national state is an expression of an idea—that of nationality. The conception of *nationality* is something which it is almost impossible to define, but we recognize it as a feeling, a consciousness to which nearly all Western men are acutely sensitive and which can easily be understood and adopted from the West by Eastern men. It is a bond which may be cemented by community of language, race and geographical propinquity, but it can exist between persons sharing none of these ties. Nor, as is proved by the existence of the Minorities Problems, are the physical and political boundaries of the national state necessarily coincident with those of a nation. For the purpose of our present study the National State is the form of association with which we are chiefly concerned, though the "nationality idea" is of importance in so far as it was exploited in order to further the external policy of the state.

In the year 1914, with certain exceptions,<sup>1</sup> the 1700 million inhabitants of the earth "belonged" to a national

<sup>1</sup> China was the most notable example of a large social unit hardly organized as a national state.

state.<sup>1</sup> This form of political association was a European invention of comparatively recent date, but by 1914 it had spread upon the wings of western civilization and was accepted in all parts of the globe as the practical limit of most of man's political co-operative activities. Men regarded their national state with its traditions, history (often unrecognizable as history to the inhabitants of other states), king or president, emblem, flag, form of government, code of laws, language, national money, armed forces and frontiers as something created at least as much by God as by Man. Some states even claimed a monopoly of God's attention. The state was a lighthouse flashing its message across the stormy seas of history, and it was said to be a sweet thing to die for one's country. One's country had a personality, and the poets, prose-makers and orators harped on themes such as that expressed in the toast :

“Our country! In her intercourse with foreign nations may she always be in the right; but our country, right or wrong!”

What this “country” or “state” idea amounted to when removed from the vague and lofty plane of patriotic fervour and spread out on the dissecting-table of an inquiring mind was something very different from the conception of the poets. However, it is not what is, but what men believe to be, which governs their actions, and when Norman Angell pointed out<sup>2</sup> certain obvious differences between fact and fancy in this matter of what a national state was, he suffered the fate of every man who tries to overthrow well-beloved idols.

In 1914 the majority of national states were newly fledged. The English, French and Spanish were of some standing in point of age, but such important States as Germany and Italy were children of the nineteenth century. In 1914 only fifty-three years had elapsed since in North America the Northern States had defeated the

<sup>1</sup> One of the curious consequences of the War was the creation of a class of persons without nationality. The League of Nations provided them with a special passport.

<sup>2</sup> See his *Great Illusion*.

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Southern States in a bloody civil war in order to prevent the Southerners from "leaving the nation." In 1914 the South American republics had been national states for about a century, having started their careers by breaking away from either Spanish or Portuguese rule with the encouragement of Great Britain. Canning said in 1826, "I called the new world into existence to redress the balance of the old."

Within the boundaries of several national states in Europe, notably Russia and the Austro-Hungarian Empire, lived minorities—the Poles, the Finns, the Czechs, the Croats and Slovenes—who either wished to set up in business as independent national states or else transfer their allegiance from one state to another. In the Far East, Japan, controlled by the leaders of her clans, had astonished the western world by reproducing within the space of thirty years (1860–90) the national state in all its essential features. The vast and peculiar Chinese civilization was setting out along the same path at the beginning of the twentieth century. Between 1840 and 1910 the self-governing Dominions of Canada, Australia, New Zealand and South Africa came into existence and hovered on the edge of becoming independent national states. They were still subordinate to Great Britain in one important respect: they did not pursue a separate "foreign policy." The Irish nation was struggling towards statehood and Indian nationalism was growing fast.

### *4. Sovereign Rights*

If the British Empire can be reckoned as a unit there were approximately forty-five national states in the world in 1914. The qualification has been made because there were certain small states such as Luxembourg nominally independent but actually closely controlled by their more powerful neighbours.

The classical test of the right of a group of people to claim the title of National State for their political organization was found in the answer to the question "Has it sovereign rights?" If the reply was "Yes"—the group

was a national state. In theory the possession of sovereign rights meant that the will of the sovereign institution could not be subordinated to any other earthly will. "The King can do no wrong." In practice each sovereign state, whilst tenaciously maintaining its theoretical irresponsibility towards other states, had by 1914 been obliged to take account of the wills and aspirations of its compeers. At this time the far-flung and intricate international economic life with its ramifications of industry, commerce and finance; and consequent world-wide movements of men and ideas, goods and credits, had made a compromise between political sovereignty and economic interdependence an absolute necessity of life.

The foreign policy of any national state consisted of a compromise designed to secure the maximum real advantage at the cost of the minimum theoretical concessions.<sup>1</sup> Since the sovereign national state was assumed to be the supreme form of human institution, the several states were inevitably rivals. In theory they could not bind themselves to co-operate without automatically infringing their sovereignties; but in practice, since a measure of co-operation was inevitable, it was achieved without prejudice, so to say, to the rights of sovereignty when and if it seemed advantageous to exercise those rights.

It was this dominating position of the sovereignty idea, only abandoned unwillingly and with reservations, which caused the struggles between the white men as to which national state should be the principal hot-gospeller of western civilization. Such a role was the prime object of foreign policy, for it was both pleasing and apparently profitable.

It was pleasant because it pandered to national vanity; it was apparently profitable for it ensured widespread political control of material resources by bringing within national frontiers large numbers of men and great areas of territory. Man-power and raw materials were the sources of military

<sup>1</sup> "The good old rule,  
The simple plan,  
That they should take who have the power  
And they should keep who can."

## *Prelude*

strength. The sovereign states were not susceptible to law—for such international law as existed was nothing more than a few vague rules unsupported by any enforceable penalties—and because the sovereign states were lawless creatures they only recognized the rule of force. It was therefore essential for a sovereign state to be “strong” and “great,” so that, in case of international dispute, right in the shape of might would be on its side. With this object in view the states, great and small, maintained armies and navies to the limit of their taxable capacities, and in 1914 approximately £500 million was spent by the chief states upon their armed forces. The armaments piled up because an increase in the military strength of State “A” became a menace to State “B,” and the only way open to “B” of meeting the threat was to increase its own military resources either by alliances or more direct methods of conquest.

### *5. British World Dominion*

Theoretically, the states as sovereign bodies were independent units making their own paths through the spaces of History, but in practice they were more like heavenly bodies moving in orbits, each star guided and propelled along its course in part by its own energies, in part by the attractions and repulsions exercised by the other members of the international constellation. Although their orbits sometimes crossed so that the stars collided in war, at other times it was possible to recognize a general design, a pattern somewhat resembling the ordered scheme of a solar system. This was the international economic system. The economic force was comparable in its controlling effects upon states to that of gravity in the physical world. This system whose nature we must now describe had, in a sense, taken the place of feudalism and the Church of Rome as the frameworks of great society, but with the significant difference that they had been European<sup>1</sup> whilst this new

<sup>1</sup> Whilst admittedly the influence (political and economic) of the Church of Rome was extra-European, no Pope ever controlled an intangible Kingdom on Earth so extensive as that ruled by the City of London at the close of the nineteenth century.

thing was universal. This international economic system was as intangible as it was all-pervading. That it had no political framework was, as we shall see, its fatal weakness, but in other respects it was a marvel of ingenious construction.

It should be of peculiar interest to ourselves because it was principally of British design. Here is the story of how this came to be.

Although western civilization was in a general way the product of all the European peoples, its begetters had combined a crusading advance all over the world with a series of internecine struggles in order to decide which national state should enjoy the profit and honour of commanding the world campaign. To the Eastern peoples or the African negro all white men and all their interpretations of the principles of their civilization may have seemed equally irresistible and equally obnoxious, but in fact the result of the struggles between the whites conditioned the types of western civilization which were finally clamped on to various parts of the world. The most significant of these internecine struggles was that between France and Great Britain, for it was this conflict which immediately preceded the final advance of western civilization, an advance which covered a wide area and was made at great speed during the nineteenth century. It was an advance armed with the products of the industrial revolution and for the most part it was made under the British flag—such were the consequences of Trafalgar and Waterloo. It is interesting to speculate what type of western civilization would have become dominant in the world if Napoleon had not been defeated. It is possible that there would have been no Dominions of the British Empire, and it is interesting to wonder how the French, with their colonial policy of assimilation, would have fared in India. However, it was because the British emerged from the Napoleonic wars as the strongest European power that the form in which western civilization completed its self-appointed task of permeating the world was chiefly commercial. The British, having engaged upon the remote South Atlantic island of St. Helena the tempestuous genius who had

tried to build up a political unity in Europe, perhaps as a foundation for a world polity cemented by the Napoleonic interpretation of the principles of the French Revolution, proceeded, in the words of their great economist, Adam Smith, "To found a great Empire for the sole purpose of raising up a people of customers, which act," he continues, "may at first sight appear a project fit only for a nation of shopkeepers."

During the nineteenth century the British built up an immense and far-flung economic system, the extent and influence of which was so great in the minds of most of the non-white races of the earth that it came to be regarded as synonymous with western civilization in general. It was true that the French and the Dutch, in that order of importance, also held aloft the banner of western civilization, but Paris and, still more, the Hague (perhaps we should write Amsterdam) were smaller cities than London. Germany and Italy struggled to show that they also represented the West in world affairs. Russia and the U.S.A. had special interests to which they confined their attentions. Spain sat dreaming of the days when a Pope had drawn a line from Pole to Pole at a distance of 370 leagues west of Cape Verde as the dividing line between Spain and Portugal, which each was to respect in its task of Christianizing mankind.

By 1914 not only had the machines of western men conquered the distances of the world and begun to make the globe shrink in terms of the time-space factor; not only had the materialism of the West asserted its domination over the bodies of millions of coloured men; but western civilization was invading the thoughts of these peoples. In the minds of their intellectuals, ideas and traditions which derived from Confucius, Buddha or Mahomet were being replaced by western philosophies and western theories of government, especially the notion of nationalism and the theories of representative government. And here again the political theories which the West enforced upon extra-European man were more often than not British practices in the art of government.

To say that the victory of Great Britain over France at the beginning of the nineteenth century ensured that the British were to be charged with a special responsibility in the matter of setting the pace and formulating the strategies and tactics of the advance of western civilization, is to tell but half the story. France was defeated but not obliterated. Spain and Holland had each in turn enjoyed a measure of supremacy. Why was it that these events had only influenced to a small extent the speed and character of the final triumph of western civilization?

Why was it that after four centuries of struggle between the high priests of western civilization the emergence of Great Britain as the final victor was a fact of special world-wide importance and apparent permanence?

The answer to this question is to be found in the coincidence in point of time of a number of related circumstances. Great Britain defeated France during the time when the industrial revolution was in full swing, and Great Britain was the home of that revolution just as, at about the same period, France was the cradle of a great political revolution.

The Napoleonic Wars were fought between two states, one commercially minded, the other politically minded; it is possible that if France had beaten Great Britain the whole texture of western civilization during the nineteenth century would have been political rather than commercial.<sup>1</sup>

But since Great Britain emerged the victor it was inevitable that during the immediate future the British conception of what was meant by western civilization should be that trade, and especially free trade, maketh man. It was due to this belief of the British, a belief whose validity they were able to test in practice, that at the beginning of the twentieth century it was in matters economic and commercial that western civilization most clearly revealed to a discerning eye the characteristics of a great and universal Society of Man. We must now inquire into the reasons for this British belief.

The average Englishman between 1850 and 1913 and even

<sup>1</sup> The Code Napoléon and the French administrative system might have wielded a greater historical influence than the teachings of Adam Smith.

## *Prelude*

in the first post-War decade, having recovered from his surprise that anyone should desire to question so obvious a truism as the value of trade, would have answered by stating a number of what he would have called "practical facts." He would have pointed out that whereas, at the beginning of the eighteenth century Great Britain was an agricultural country supporting a population of some ten and a half millions in conditions of physical comfort little superior to those existing during the Roman occupation, at the end of the nineteenth century Great Britain sheltered thirty-seven million persons enjoying all the amenities of a modern life and was the centre of a vast Empire of which it could be boasted that upon its territories the sun never set. This extraordinary change was the fruit of less than a century of international commerce. If the inquirer had objected to this side-tracking of the issue and pointed out that to describe the results of trade was no answer to his question as to the value of trade, most Englishmen would have been nonplussed, since the modifications of theories to fit accomplished facts is the usual habit of the British mind.

The principal characteristics of the British version of western civilization were derived from the results of the industrial revolution, and it was in the development of these consequences that the British made an indelible mark on world history. This process we must now examine.

A revolution in the affairs of men, whether its chief characteristic be economic or political in appearance, generates forces which leap forth from the revolutionary storm centre and beat upon the structure of society in which they have been conceived. They are like those great convulsions of nature which change the features of the earth by submerging the peaks and elevating the plains. But the structure of society differs from that of the earth in so much as the latter is obliged to offer a constant resistance to the earthquake whilst society can resist or conform to revolutionary change as seems best to man, its creator.

The invention of the steam-engine in 1763 set in motion

the whole train of developments in respect of the application of power machines to the production of wealth, which it is convenient to call "The Industrial Revolution." The economic beliefs of western men and their prevailing commercial practices were far from conforming with the "newfangled" doctrines of *laissez-faire* and free trade, with that system of "natural liberty" and the theory that if left alone the individual in his efforts to increase his personal gain will inevitably be led by an "invisible hand" to promote the good of the community. In the eighteenth century an extensive degree of state regulation of trade was accepted as normal. The industrial revolution with its sudden increase of production, its factories demanding labour, its labour demanding cheap food, created a crisis in Great Britain and a sharp struggle between those who feared the impending social reconstruction and those who saw in such great changes a sure sign of progress.<sup>1</sup> There is no space here in which to record the fortunes of the battle of which Adam Smith's *Wealth of Nations*, the Reform Bill of 1832, the Repeal of the Corn Laws, and of the Navigation Acts, are part and parcel. Nor can we do more than indicate in note-book form the names of some of the most famous of the warriors whose writings and speeches profoundly influenced public opinion in Great Britain and by so doing moulded and determined the political and economic characteristics of the nineteenth century. From a list which also includes John Stuart Mill and his essay on Liberty, Charles Darwin and his *Origin of Species* (published in 1859), we will select the following notables:

*Adam Smith* whose economic masterpiece dealt a deadly blow at the mercantile system. The great book was published in 1776.<sup>2</sup> The writer died in 1790, and the

<sup>1</sup> "Where is the distaff and spindle . . . where the employment for women and children, formerly carrying comfort and independence to the home of every cottager?—all absorbed by machinery, or sacrificed to the cry of 'cheap.'" (Burrows on "Machinery" in *The Advocate, or Artizan and Labourer's Friend*, 1833, No. 7, p. 55.)

<sup>2</sup> "It (the *Wealth of Nations*) is the most valuable contribution ever made by a single individual to determine the true principles of government."—Buckle.

"The half-bred and half-witted Scotchman (Adam Smith) who taught the deliberate blasphemy: 'Thou shalt hate the Lord, thy God, damn His laws and covet his neighbours' goods.'"—John Ruskin.

## Prelude

Younger Pitt, whose economic policy—except when under the stress of war—was based on Adam Smith's teachings, paid a tribute to the master in his Budget speech in 1792.

*Jeremy Bentham* (1748-1832), was the "utilitarian" philosopher who applied his formula, "the greatest happiness of the greatest number," as the criterion of practical value in law and politics, and whose philosophy provided the moral background on which Adam Smith's ideas were developed and flourished.

*William Huskisson* (1770-1830) who, when President of the Board of Trade (1823-27), revised and liberalized the shipping and tariff policy of this country. He tried to repeal the prohibition of export of machinery.<sup>1</sup> He prepared the way for: *Robert Peel* (1788-1850) who, persuaded by the activities of *Richard Cobden* and *John Bright*, forced the Tory Party to repeal the Corn Laws (1846) and exposed British agriculture to the coming blasts of world competition, was also responsible for a further liberalizing of foreign trade. Finally, there came *William Ewart Gladstone* (1809-1898) who, in the two great Budgets of 1853 and 1860 finally completed the work of making Great Britain a free-trade country.

By the middle of the nineteenth century in Great Britain the forces of "Liberalism," of "free-trade," of the doctrine of "enlightened self-interest" and the belief in "*laissez-faire*" had won a complete victory, a victory which meant that the main feature of western civilization as a world force was settled for nearly half a century to come.

The Liberals who fought and won the battle for free-trade capitalism argued that by encouraging the international division of labour they were doing something which would most quickly abolish material poverty, and that by making an economic unit of the world they were promoting the cause of international peace on a basis of enlightened self-interest.

Politically predominant in the world the British set about

<sup>1</sup> And by a strange irony of fate was knocked down and killed by Stephenson's engine, "The Rocket," at the opening of the Manchester-Liverpool Railway.

the business of preaching the gospel of their prophet Adam Smith and, if need be, forcing it down the throats of mankind. They were amazingly successful.<sup>1</sup> The artisans who made Great Britain the workshop of the world were fed and clothed by imported food and wool and cotton from overseas lands. These countries were developed by British credit founded upon the enormous savings derived from the profits of British industry. The development of the overseas lands set in motion prolonged and extensive movements of human migration across the oceans and laid the foundations of new national states. In order to assist international trade the British perfected and operated a technique of world money called the Gold Standard. This device subtly linked together the national economic systems of the principal trading states and was by common consent controlled from London, the capital market-place of the world. The British built up and operated a merchant shipping service which carried nearly half of the sea-borne trade of the world. Through the words and deeds of its British high priests the nineteenth-century industrial revolution offered men a new world in exchange for the old, and though the acceptance of the offer necessarily involved tremendous readjustments in national social systems and the creation of a new international economic society, men followed the lead of the British and signed the bond, little realizing the consequences of failure to carry out the terms of the co-operative contract. Between 1914-18 they were to discover the nature of the penalties.

One of the most far-reaching consequences of the British policy was that the inhabitants of nineteenth-century Britain were prepared to accept the implications of being the world's greatest creditor nation, even though this involved them in an almost complete dependence upon sea-borne food, and hence heavy expenditure upon a navy maintained to ensure the due arrival in British ports of these essential overseas supplies.

Every institution carries within itself the seeds of its

<sup>1</sup> See figures I and II, page viii, for evidence of the world's economic progress during the 19th century.

own supersession, and the *laissez-faire* free-trade economy was no exception to this rule, both in its home of Great Britain and the wider world to which it had in part spread.

The factories were no sooner established than the Factory Act of 1833 appeared as a check upon the unbridled licence of "economic" laws.<sup>1</sup> Small though it seems to us to-day as a "burden on the free conduct of industry," considering that one of its provisions laid down a maximum working day of nine hours for children under eleven; nevertheless it was the beginning of a whole series of acts for the regulation of industrial conditions in the interests of the worker and part of a network of social legislation whose broad economic effect was that of using the state as a machine for the redistribution of the national income. Whether or not the state or the private individual is the best investor of the national savings has no bearing on the fact that this progressive intervention of the state in economic life which took place during the nineteenth century in Great Britain was directly contrary to the principles of flexibility and freedom of private enterprise; to that conception of value as measured by price in an open market, upon which the economic system was professedly based. The growth of state intervention may have been good or bad; that is an arguable proposition with which we are not here concerned. Our interest in this phenomenon is that it was making in fact a new kind of semi-socialized system out of something which continued to pretend it was a pure capitalist and free-price system.

The root cause of the intervention of the state was the fact that the industrial revolution, by transferring wealth from the landed aristocracy, first to the middle classes and thence to the masses, had caused political power to undertake a similar journey. The steady extension in Great Britain of the scope of democracy, until by 1913 the franchise included all males over twenty-one, with

<sup>1</sup> The name of Ashley Cooper, who became 7th Earl of Shaftesbury, will for ever be associated with the story of a life devoted to the annihilation of the frightful conditions brought about in human labour by the Industrial Revolution.

women knocking hard and even violently at the door of this masculine stronghold, the rapid growth of the Parliamentary Labour Party and the Trades Unions were all signs of the growing political strength of the proletariat. They used their power to improve their social status. The Labour Party were Socialists and believed that the means of production should be controlled by society, *i.e.* The State. They did not agree that, "It is curious to observe how, through the wise and beneficent arrangement of Providence, men thus do the greatest service to the public when they are thinking of nothing but their own gain."<sup>1</sup>

It was not their view that "the lowly path of the poor has been allotted to them by the hand of God to teach them diligence, humility and patience and contentedly to bear its inconveniences."<sup>2</sup>

Internationally also, there were signs that the British-made world economic system was developing in directions other than those anticipated by its early apostles.

The hope that an extension of international economic intercourse would lead to international political security was not fulfilled. The great Western Powers jealously competed for the political control of raw materials and markets in Africa and Asia. For many years during the nineteenth century Great Britain was on the verge of war, first with Russia, then with France and finally with Germany. Russia and Japan fought for the control of Manchuria. The new states such as Germany, the U.S.A., Canada and Australia, whose frames had been nourished by the fruit of the industrial revolution, were either showing signs of trying to wrest industrial supremacy from Great Britain or else they were refusing to concentrate their activities upon their development as producers of primary products. They raised tariff walls behind which they set about building up a balanced, "all-round" economy.

<sup>1</sup> *Easy Lessons on Money Matters for the Use of Young People*. Published (12th Edition) 1850 by the Society for the Promotion of Christian Knowledge. (Quoted by J. M. Keynes in *Essays in Persuasion*, p. 85.)

<sup>2</sup> *A Practical View of the System of Professed Christians contrasted with real Christianity*, by Wm. Wilberforce. Published 1797.

## Prelude

This meant the growth of industry in the U.S.A., Canada and Australia; the protection of agriculture in the case of France and Germany. It was after the collapse of the second Republic that France abandoned her brief experiment in free trade and returned to her traditional policy of protecting the French peasant against the importation of cheap food-stuffs from overseas. "Le blé pour nous est un élément sacré!" This statement by a French minister (made long after the pre-War period we are now considering) may have been a picturesque exaggeration, but the agrarian interests in Continental countries were certainly sacred in the eyes of politicians. Australia clung tenaciously to her White Australian policy although, for economic reasons, she might have developed her Northern Territories with Asiatic labour. The Emperor William II of Germany consistently pursued a policy of identifying German trade with *welt-politik*. Throughout Central Europe, commercial and political policies were inextricably intertwined. At the end of the nineteenth century the U.S.A. was beginning an Imperialist political-economic policy of penetration in South and Central America.

Even in Great Britain support had appeared in favour of an Empire commercial *bloc*, and seeds were sown which in due course were to sprout on the stony soil of Ottawa.<sup>1</sup>

In the words of *Planning*, No. 24,<sup>2</sup> "Great Britain at the end of the nineteenth century was in the position of a patentee whose patent is running out. . . . Great Britain was the inventor of industrialization as a basis of world-wide trade, and, like the patentee, enjoyed for a time a virtual monopoly." But the patentee was alert and inventive, and the following tables<sup>3</sup> indicate how Great Britain countered a growth of economic nationalism in the latter part of the nineteenth century by opening up new markets and by abandoning low-grade production in favour of higher-quality goods.

<sup>1</sup> The nature of the harvest is yet to be seen (1934).

<sup>2</sup> Broadsheet issued by P.E.P. (Political Economic Planning).

<sup>3</sup> See *Planning*, No. 24.

TABLE I

THE GROWTH OF PROTECTION ABROAD

1879. Germany.—First strictly Protectionist European Tariff.  
 1881. Russia.—Greatly increases general tariff.  
 1882. France.—Steep increase of duties on manufactured goods.  
 1884-5. Russia, Switzerland and Germany.—Substantial increases in tariffs.  
 1890. Russia, Austria-Hungary, Italy, U.S.A.—Large increases in tariffs.  
 1892. French retaliatory duties.  
 1893-5. Continental tariff war.  
 1897. U.S.A. Dingley Tariff.  
 1898. Canadian tariff with preferences for Great Britain.

TABLE II

DISTRIBUTION OF BRITISH EXPORTS BETWEEN PROTECTED  
AND UNPROTECTED COUNTRIES

Year	<i>Per cent. of British Exports to</i>	
	<i>Protected Countries</i>	<i>All other Countries</i>
<i>A. All Articles—</i>		
1860	51	49
1870	53	47
1880	49	51
1890	46	54
1900	45	55
<i>B. Manufactured and Partly Manufactured—</i>		
1860	50	50
1870	50	50
1880	47	53
1890	44	56
1900	42	58

A third table in *Planning*, No. 24, too lengthy to reproduce here, shows very clearly that between the years 1870 and 1910 British exports of crude products, such as pig-iron, iron and steel bars, cotton yarns, etc., were either more or less stationary or decreasing, whilst those of semi-finished and finished products, such as steel plates and sheets, gal-

vanized sheets, tinplates, manufactured metal products, machinery and cotton-piece goods were rising rapidly.<sup>1</sup>

One may sum up by saying that in 1913 the theory of *laissez-faire* was already being honoured more in principle than in practice, and that in many domestic national economies as well as in the international economic system politics were vigorously denying to economics the claim of the latter to be the inspiration of men's actions.

The economics of plenty bade men ignore national frontiers and racial differences, and let free competition in the world markets eliminate the inefficient. It directed them to allow their savings to flow freely towards the highest rate of interest and to finance, say, the most profitably conducted armament industry, or the soundest high interest-bearing foreign bond, regardless of the ultimate destination of the munitions or the foreign policy of the foreign government.

But politicians of nationalism cried: "Halt!" to this practice whereby international commerce looked upon the world as its oyster and governments the swine before whom some of the pearls must be laid. In varying degrees amongst the chief trading nations—least of all in Great Britain, most of all in Germany—the state was forcing private economic interests into the strait-jacket of foreign policy.

It appears probable that in 1913 men were near to the time when the contrast between what the world economic system was supposed to be, and what it was actually becoming, could no longer have been ignored and that events would soon have forced men to make that choice between economic nationalism and world trade which was in fact deferred till 1933. It is interesting to speculate as to what the outcome might have been had there been no Great War. In 1913 Great Britain still stood solid with all her immense strength in the Free Trade camp, and she could triumphantly point to the fact that adherence to the principles of her Liberal economists had

<sup>1</sup> Between 1870 and 1910 the quantity of galvanized sheets exported increased twenty-seven-fold, whilst the value of machinery exported during the same period increased by 600 per cent.

not prevented her from leading the world in the provision of social services for the betterment of the lives of her people.<sup>1</sup> She could claim that she had in large measure countered the menace to her international economic position by changing production from low-grade to high-grade products and by using her savings to open up new markets.

As the U.S.A. grew in stature and saturated her home-market it might have happened that her export trade would have become so vital to her well-being that she would have lowered her trade barriers and joined Great Britain in a twentieth-century crusade for the salvation of free trade from the clutches of economic nationalism. Such powerful forces working toward world unity might have triumphed over national differences had they been able to work upon men's minds through long years of peace. These things might have been, but no such opportunities occurred because the political forces of nationalism, as if apprehensive that time might be on the side of economics, burst forth into war, and in a few days the world economic system, the product of a century of toil and labour, collapsed into ruins.

Within a few days during the year 1914 the sanctity of contract, the gold standard system, the free movement of capital, goods and men across the frontiers—all these, and other pillars of the world system vanished with incredible swiftness, and in their place the forces of destruction stood ready for their evil work.

It was said earlier in this chapter that the British version of western civilization was that "trade maketh man." The British also said that "Britons never should be slaves," and they did a great deal at the instigation of Wilberforce and his friends to make it impossible for anyone else to be a slave.<sup>2</sup> They also said that "Trade follows the flag," and they knew that peace, law and order are indispensable accompaniments of a profitable commerce, so they carried

<sup>1</sup> Especially during the first decade of the twentieth century—though in some respects Germany was more advanced.

<sup>2</sup> All slaves were emancipated in the British Empire on August 1st, 1833—three days after Wilberforce died. It is estimated that there are about 5,000,000 slaves still in servitude to-day (1934) in various parts of the world.

## Prelude

overseas and planted about the world the idea of parliamentary government which was itself derived from the liberal economic notions of no taxation without representation, and that "He who pays the piper shall call the tune." They also introduced the world to the standards of British justice with its extreme insistence upon the sanctity of contracts; they preached and practised tolerance, and ideals of personal liberty which were expressed in the belief that a man should be able to trade or dwell where and how he wished. The British worked ceaselessly to fortify the *pax Brittanica*, to improve the material welfare and economic productivity of coloured peoples and to bear the white man's burden in a gentlemanly manner. It did not make the Englishman an ignoble animal because these wise policies were both befitting to him as a Christian and profitable to him as a merchant, even though to a Frenchman it made him seem a perfidious hypocrite. The British—in all humility—considered themselves God's agents on earth, and as they sang "Rule Britannia" and looked at the great splashes of red upon the maps of the world on the walls of their school-rooms, it seemed to these chosen people that, up to and including 1914, God had very considerably approved of their behaviour. Such reflections were both tempered and reinforced by the appearance on the maps of the letters—U.S.A. *That* was one of the few occasions when God had *not* approved. It had been a lesson learnt, but the British Dominions overseas, together with anxious thought given to India and Ireland, were the proofs that the lesson had not only been learnt but was being faithfully applied.

## 6. World Picture, 1913

The moment has now arrived when we are in a position to make a summarized and composite picture of human society as it existed when it was called upon to pay the price involved by its failure to fulfil the co-operative terms of the bond it had accepted when it entered the New World to which it was offered access by the Industrial Revolution.

The world of 1913 was unified by the ingenious device of the gold standard with its important consequence from the commercial point of view of stabilizing the exchanges, so that—for example—a gold sovereign was always exchangeable for a fixed number of dollars, francs or marks. It also linked together with a bond far more powerful than any government enactment, the price levels of the gold-standard countries. Costs in one such country could not rise far above, or fall far below world costs, and this meant that the degree to which a national group could be prosperous with unprosperous neighbours was limited. The centre at which resided the directing force of the international banking and monetary system was London. The beauty of the gold standard system as it was worked by London in the opening years of the twentieth century was that it permitted bankers, merchants and industrialists all over the world to hold economic hands under the table whilst leaving them free to scowl at each other in the accepted national manner when political exigencies demanded such patriotic grimaces. The earth was becoming covered with a network of railways and roads along which man and his goods passed to and fro across frontiers along which a growing system of tariff barriers were being created. This rail construction was often carried out with one eye on its usefulness for sending an army as well as goods across the frontier. In 1913 the motor-car and the aeroplane were at the beginning of their spectacular illustration of the influence of the internal combustion engine upon the business of transport. Thousands of steamships trafficked across the seas of the world, for the sea-routes (outside a limit drawn three miles<sup>1</sup> from the coasts of national states) were free to all. Telegraph lines linked up the cities of the earth; news was flashed from one continent to another along cables laid in the depths of the oceans. In 1913 the triumph of wireless, perhaps a more significant development than that of the invention of printing, was emerging from the chrysalis of laboratory experiment. The machine-equipped factories of Western

<sup>1</sup> A relic of the days when three miles was the effective range of artillery.

## *Prelude*

Europe and of the United States poured forth goods to be sold in the Far East, India, Australia, South America and Eastern Europe. In exchange, the men of the overseas countries, the growers of wheat, tea, meat, coffee and the miners of copper and tin, sent their raw materials to the factory lands to fill the stomachs of the dense populations of the industrial countries and to supply their machines. From the trade point of view the men of the world were divided not into national states but into four main groups. Agriculture (66 per cent.); manufacture (14 per cent.); transport and services (13 per cent.); and commerce (6 per cent.). The percentages indicate the approximate distribution amongst these groups of the 1700 million inhabitants of the world.

Persons with savings to invest found that whether they liked it or not it was profitable to lend their money to businesses in foreign parts, or even to foreign governments. Big companies found it necessary to set up branches in foreign countries and own property abroad, even though it meant paying taxes to foreign governments. For instance, to quote one example, practically all the railways in South America were made of British material, owned by British investors, and largely run by British railway engineers. Their head offices were not in South America but in London.

Migration took place on a large scale. Hundreds of thousands of men, women and children left the crowded lands of Europe every year and travelled across the seas to make new homes in the lands of the North and South Americas, Australia, New Zealand and, to some extent, in Africa. They were made welcome.

Finally, in social, scientific and artistic matters frontiers and nations counted for very little. Women of all nations went to Paris for their clothes, men of all nations copied English clothes, and football spread all over the world. The works of chemists, mathematicians, physicists, doctors, writers, painters and musicians, were appreciated and used by the whole world without anyone attaching much importance to the nationality of the scientist or artist.

Such was a picture of the world in 1914 from the point

of view of oneness. It was a world going about its business without much thought of the storm-cloud which hung above it. The storm-cloud which was represented by the expensive armies and navies maintained with orders to be ready at a moment's notice to destroy the co-operating international trade and communications world of which men were so proud.

In 1914 men, especially Western civilization men, enjoyed living a comfortable life, and even the largest, the most powerful, the richest national state, did not contain within its frontiers all the good things of the world. The United States of America was a great nation, but it grew no rubber, possessed no old buildings and few historical monuments, to mention but three of many things needed by Americans. Great Britain, for all its wealth, could not feed its population on home-grown food: it had coal and iron, but no copper or nickel; Lancashire could make cotton goods, but it needed the climate and soil of the southern part of U.S.A. to grow the cotton and the bodies of Eastern men to wear the cloth. Because men wanted a high standard of living, which was only possible if they were able to obtain and consume materials from all parts of the earth, whether or not these materials were found in areas "belonging" to their own country, men worked for two objects. Firstly, they tried through the foreign policy of their government to bring within the frontiers of the national state as much of the earth's surface as possible. But as it was obviously impossible, or at any rate very difficult, for any state to have much chance of conquering the whole world, men worked for a second object, which was to build up and increase trade and improve methods of travel between all men all over the world. From this point of view "a foreigner" was not a man who belonged to another national state, and therefore probably a dangerous person who had some dirty scheme at the back of his head for making his own nation more powerful. On the contrary, he was a most useful creature who made or grew something very attractive which he would exchange for something one made or grew oneself and which he wanted.

He was a customer, and one might profitably lend him money to help him buy things from within one's own national state; he was a seller from whom one might be able to buy food or goods which were better and cheaper than those produced within one's own frontier.

It was a world in which the consequences of men's co-operative and competitive instincts clashed together in violent contrast. Though there was a world economic system of finance and trade, the inquiring visitor from another planet, having inspected the intricate ramifications of this complicated mechanism which, through the principle of the division of labour and the world-wide exchange of goods, ensured to millions a far higher standard of material comfort than would otherwise have been possible, would have looked in vain for any corresponding structure in the political sphere. Earthly historians would have told him that at various periods in human history there had been over limited areas considerable units politically unified, but that they had dissolved in conflict. Our tourist from the stars would have been further instructed that at the time of his visit (1914) there existed the British Empire, a peculiar association of divers peoples, and this was perhaps the nearest approach to the world political system whose absence so surprised him. But our visitor would have noticed that this British Empire was in an embryonic state and very far from universal in its scope. He would have seen the Great Powers of the United States, France, Germany, Austria-Hungary, Russia, Italy and Japan seated upon their sovereign thrones menacing each other with their armed sceptres. Then there would have dawned on his mind that he was examining the great paradox of men who were trying to co-operate and compete at the same time; trying to remain isolated and sovereign in their national states whilst they laboured to perfect their world co-operative economic system: a system which was the fruit of the spread of western civilization; a system whose first name was economic because the British had dominated and directed the final world-wide surge forward of western man and his works. On every side was drawn up the evidence of

western man's political anarchy, the armed forces trained to destroy the economic achievements of the West.

Which of the two rival ideas would prevail? Would that great beast, the sovereign state upon whose altars so much blood had been spilt, be bound and controlled by the clinging texture of internationalism which was multiplying on the economic loom and seemed year by year in the late nineteenth century and 1900's to be clothing and cloaking the nakedness of the beast? Or would the wild animal who drew his strength from so many ignorant human minds, and who so cunningly concealed his crude selfishness and paganism in the fine phrases of patriotic sentiment, suddenly spring into action and once more lead the world into war?

As the year 1914 opened it seemed that the answer to these tremendous questions was uncertain. There was much to be said in favour of either a negative or a positive reply. Some felt that the world would be saved from war by the British or perhaps the English-speaking peoples working in co-operation to enforce peace. Others argued that the British Empire, whose mother country had done so much to create world economic co-operation, was also largely responsible for the steady spread of parliamentary government. These believers in democracy suggested that as humanity became organized into states ruled "by the people for the people" the era of universal political peace was brought appreciably nearer. Others—still hopeful of averting war—pinned their faith to the spread and increase of international socialism.

At the Copenhagen Congress in 1910 of the Second International, attended by 896 delegates representing twenty-three "national" Socialist parties, a resolution was passed to the effect that:

"If war threatens to break out it is the duty of the working class in the countries concerned and of their parliamentary representatives, with the help of the International Bureau as a means of co-ordinating their action, to use every effort to prevent war by all the

## Prelude

means which seem to them most appropriate, having regard to the sharpness of the class war and to the general political situation.

“Should war none the less break out, their duty is to intervene to bring it promptly to an end and with all their energies to use the political and economic crisis created by the war to rouse the masses of the people from their slumbers and to hasten the fall of capitalist domination.”<sup>1</sup>

Another view held that the ever-increasing efficiency of the international economic system would oblige men to realize the need for political co-operation. So much for the optimists. The pessimists pointed gloomily to the political struggles between the Great Powers for markets and concessions in the overseas and Eastern lands. To these observers the international economic system (especially as governments were obviously taking an increasing degree of interest in the economic activities of their nationals) was the most probable breeding-place of war. They pointed out, whatever might be the facts of world economic unity as set forth, for example, in certain passages of Norman Angell's remarkable book, *The Great Illusion*, that no one could deny that in most men's minds trade was pictured in terms of national struggles. It might be true that when closely examined the German and British mercantile marines were revealed as world services, and that the shares of the Cunard or Hamburg-American lines might be held by people residing in any part of the world, but the general impression remained that victory in competition between these two lines was a matter of national pride and profit. No German could justifiably complain that he could not engage in business in, or emigrate to a British colony on terms of equality with an Englishman, but this did not prevent Germans from wanting colonies and Englishmen from not wanting to give up their colonies. The pessimists reinforced their case by pointing out that the peace of

<sup>1</sup> Compare with this the British Labour Party's War and Peace Policy published in *The Times*, June 30, 1934.

## *Our Own Times*

Europe was precariously preserved by the system of balance of power and that this device, in order to preserve equipoise, demanded the periodic addition of weight and counterweight to the ends of the see-saw. The pessimists forecasted that this process would eventually split the plank of peace in the middle. They were right. In 1914 the political anarchy of the sovereign states of Europe seethed into one of its periodic crises and this time there was no recovery. Europe went to war, and the world was soon to discover that the terms of the bargain it had made during the nineteenth century with economic progress were that when a world has been made ONE for peace it must remain ONE for war.

## CHAPTER II

### GREAT WAR

“See how these Christians love one another.”—TERTULLIAN, *Apologeticus*.

#### I. *Last Days of Peace*

IN June 1914 there arose an incident between the sovereign states of Serbia and Austro-Hungary. The Archduke Ferdinand, heir to the Austro-Hungarian thrones, a man of liberal dispositions, was assassinated whilst visiting the town of Serajevo, the capital of Bosnia. Amongst the inhabitants of this province of the Austrian Empire were many Slavs, and the supporters of the “Greater Serbia” movement hoped that one day Bosnia would form part of Serbia. It is probable that had the Archduke lived he would have reformed the organization of the Austro-Hungarian State in the direction of giving a greater measure of autonomy to the Czechs, Slavs, Croats and other national minorities who were ruled from Vienna. This might well have weakened the pro-Serbian movement in Bosnia. Evidence is now available that the assassination was planned in Belgrade and that, certainly, members of the Serbian army staff, and probably, members of that Government were privy to what was going forward. Certain Serbians were not over nice in their views as to the place of assassination in political life.<sup>1</sup>

The death of the Archduke—his wife shared his fate—provided the Austro-Hungarian Government with an opportunity to settle accounts with Serbia, whose growing strength and support of the Pan-Serbia movement were menaces to the success of the foreign policy of Austro-

<sup>1</sup> In 1903 a group of members of the General Staff broke into the Royal Palace at Belgrade at night and murdered the King and Queen in their apartments. The street corner at Serajevo where the murder took place is marked with a tablet on which appear the words, “At this place Gavril Princep proclaimed liberty. June 28th, 1914.” Princep fired the fatal pistol-shot.

Hungary. On July 23rd, 1914, Count Berchtold presented an ultimatum to Serbia, whose terms were so severe that it was hoped in Vienna that Serbia would fight rather than accept terms so derogatory to her sovereign rights. Within the prescribed period of forty-eight hours laid down in the ultimatum the Serbian Government replied in conciliatory terms, which accepted 90 per cent. of the Austrian demands. Vienna declared that the answer was "unsatisfactory" and broke off diplomatic relations with Belgrade. On July 28th, 1914, Count Berchtold secured the assent of his aged master, the Emperor Francis Joseph, to a declaration of war against Serbia, and on the 29th Austro-Hungarian batteries opened fire across the Danube upon the Serbian capital of Belgrade. The Great War had begun. Within the next ten days France, Russia, Belgium, the British Empire and Germany were drawn into the conflict. The Great Powers were like mountaineers roped together. One fell into the abyss of war and the rest were swept into the disaster. In order to understand why this Austro-Serbian incident precipitated a world war it must be remembered that it was the pretext rather than the cause of war. For a number of years the peace of Europe had been disturbed by periodical "incidents" which, like warning cracks in a condemned building, indicated the narrow margin of safety which separated peace from war. Up to 1914 these incidents, so far as the Great Powers were concerned, had been liquidated by peaceful methods, often only with such difficulty that in 1911, when one of these episodes had nearly exploded into general war, the British Foreign Secretary, Sir Edward Grey, in a speech delivered in the House of Commons on March 13th, 1911, had suggested the need of some system of collective security. This pronouncement has an almost tragic interest at the present time (1934). The relevant extracts of his speech, which referred to some proposals put forward by President Taft of the U.S.A., are as follows :

"You will not get it (relief in expenditure on armaments) till nations do what individuals have done—come

to regard an appeal to law as the natural course for nations, instead of an appeal to force. Public opinion has been moving. Arbitration has been increasing. But you must take a large step further before the increase of arbitration will really affect this expenditure on armaments. . . . But supposing . . . two of the greatest nations in the world were to make it clear to the whole world that by agreement such as . . . , that in no circumstances were they going to war again, I venture to say that the effect on the world at large of the example would be one which would be bound to have beneficial consequences. It is true that the two nations who did that might still be exposed to attack from a third nation who had not entered into such agreement. I think it would probably lead to their following it up by an agreement that they would join with each other in any case, in which one only had a quarrel with a third Power by which arbitration was refused. And more and more the tendency which is growing in the world to recognize that war between two great countries must not only be a serious thing for them but must be a serious thing for neutral Powers through the disturbance it causes, the more and more they would join, and nations would come to the conclusion as between themselves that they were not going to fight, but that it was their interest to join together to keep the peace of the world. . . . So I think it is not impossible—though I admit that in a case of such an enormous change progress may be slow—that the public opinion of the world at large may insist, if it is fortunate enough to find leaders who have the courage—the sort of courage which has been shown in the utterances I have quoted in the House—upon finding relief in this direction. Some armies and navies would remain, no doubt, but they would remain then not in rivalry with each other, but as the police of the world. . . . The great nations of the world are in bondage, in increasing bondage, at the present moment to their armies and navies, and it does not seem to me impossible that in some future years they may discover, as indi-

viduals have discovered, that law is a better remedy than force, and that all the time they have been in bondage to this tremendous expenditure, the prison door has been locked on the inside. If you think that visionary and not in the region of practical politics, I reply that at any rate we ought not to leave what the President of the United States has said without a response. . . .”<sup>1</sup>

The frequency of the “war-scares” was symptomatic of international political strains in Europe, the home of western civilization; political nationalism—as we have already observed—was running very strong and the depth and strength of its current was due to the anxious desire of men for peace and security. Military strength seemed the only sure way of avoiding attack, and “military strength” often seemed to mean political control of some area already in the possession of another state. It was a vicious circle in which states attempted to be safe by menacing each other’s security.

At the time of the Serajevo incident Europe was divided into two camps: the Triple Alliance (Germany and Austro-Hungary plus a doubtful Italy), and the Franco-Russian Alliance plus a Great Britain linked to France by an understanding called the *Entente cordiale*. In theory the peace of Europe was reinforced by the fact that these two groups balanced each other in power. Their genesis was as follows:

The birth of the German Empire as a consequence of the Austro-Prussian War and the Franco-Prussian War marked the conclusion of the first stage in Bismarck’s policy. He then devoted his genius to securing what had been achieved, and brought about an alliance with Austro-Hungary (1879) and another with Italy and Austro-Hungary (Triple Alliance 1882). These were supplemented by a treaty with Russia, which pledged each of the signatories to remain neutral when the other was engaged in war unless the war was an attack by Russia on Austro-Hungary or by Germany on France.

The effect of this policy was to isolate France. When

<sup>1</sup> *Hansard*, vol. xxii, 1911. Cols. 1988, 1990 and 1991.

the Emperor William II "dropped the pilot" by dismissing Bismarck in 1890, the latter's policy of friendship with Russia was likewise abandoned as was also a movement for an Anglo-German understanding. At this time the world rivalry between France and Great Britain, which extended back to the Napoleonic wars and further, was acute and showed itself particularly in a clash of colonizing ambitions in North Africa. Great Britain was also profoundly suspicious of Russia's forward movement in Central Asia and the Far East, with its menace to India and British interests in China.

Russia and France came together in an alliance in 1894, and by 1904 the growing strength and openly expressed imperialist ambitions of Germany had brought France and Great Britain into an *Entente cordiale*. A treaty was signed in which Great Britain agreed to leave Morocco to France in return for a free hand in Egypt. There followed secret "conversations" and "exchanges of views" between the French and British general staffs.<sup>1</sup> The political growth of these two groups was accompanied by a steady increase in the strength of the conscript armies of the Continental Powers and by a naval armaments race between Germany and Great Britain.

Some words about the Balkans. This part of Europe was occupied by turbulent peoples who hated each other and the Turk. Russia, as the chief Slav Power, and Austro-Hungary had "interests" in the Balkans. Russia managed to foster the creation of a species of Balkan Alliance, which in 1912 attacked and defeated Turkey. In 1913 the victors of the First Balkan War quarrelled over the spoils, and the Second Balkan War took place. From these two conflicts Serbia emerged with increases of territory, population and self-confidence. Austro-Hungarian ambitions in the Balkans received a set-back, as did also certain German commercial-political plans for the extension of her influence through Turkey and so into the

<sup>1</sup> The British Admiralty did not take part in these conversations. They had their own plans. They were so secret that it is said that the Navy did not even tell the Army it proposed to land it on the Danish coast! There was—in those days—no naval staff at the Admiralty.

Middle East. This German "Drang nach Osten" policy seemed to aim at the extension of German influence to the head-waters of the Persian Gulf; an obvious menace in British eyes to the safety of India.

Such, in 1914, were the bare bones of an international situation which had obviously been for some years on the verge of bursting into war.<sup>1</sup> The Serajevo murders touched off the explosion.

During the desperately critical summer days of July the situation steadily became worse and less under the control of statesmen. It is probably true to say that no government wanted war, but some governments were ready to run the risk of war in order to promote their national ambitions. Let the headlines from *The Times* tell the story:

*July 30th, 1914.*—The Arming of Europe. A Situation of Extreme Gravity. Call to War. Growing Pessimism.

*July 31st.*—On the Brink of War. Russian Call to the Colours. Rally by the Dominions. The Duty of Great Britain.

*August 1st.*<sup>2</sup>—Europe in Arms. General Russian Mobilization. Martial Law in Germany.

*August 3rd.*—Five Nations at War. Fighting on Three Frontiers. Invasion of France. British Naval Reserves Mobilized. Bankers' Emergency Proposals. Bank Rate 10 per cent.

*August 4th.*—The Menace of Germany. Naval Aid for France.

*August 5th.*—War Declared. British Empire Mobilizing. Government Control of Railways. Resignation of Lord Morley and Mr. Burns.

Whilst such-like items of news caused anxious discussion at British breakfast-tables and in the cafés of the capital

<sup>1</sup> This account of the 1914 situation in Europe and its pre-history is no more than a sketch outline. For further information, see Bibliography, Vol. II.

<sup>2</sup> On Thursday, July 30th, the rates at Lloyds against Great Britain being involved in war were 20 per cent. By Saturday, August 1st, they had risen to 70 per cent.

cities of Europe, vast crowds swarmed in the streets, sang patriotic songs, waved flags and cheered as soldiers marched from their barracks . . . to the troop-trains which would carry them to glory and—but this was not so much thought of—to their graves. In Government offices, such as the War Offices, the Admiralties, the Foreign Offices, the lights burnt throughout the hot summer nights as the civil servants worked in their shirt sleeves at masses of papers, telegrams, telephone calls, orders and counter-orders, immediate and urgent. The statesmen in Cabinet met anxiously, argued and discussed what should be done. Telegrams were sent to foreign states promising to do *this* if the other governments would stop doing *that*, and replies poured in saying: "We will stop doing *that* if you will stop doing *this*!" And back went the answer: "But we learn you have done *that*, so we had to do *this*." Then came the day when, in London, the newspaper boys were shouting "British Ultimatum to Germany." For forty-eight hours the British Cabinet had been implored by the French to say that Britain would stand by France, and at last the British Government warned Germany that if she invaded Belgium<sup>1</sup> the British could not stand on one side. It was too late. The German plans were fixed and the huge military machine had started to move. Men at this late stage could not control their own creations, their plans, their governments, their general staffs, their Press, their passions. They were like insects dancing madly on the surface of the fast-running stream which was pouring over the disastrous precipice of great war.<sup>2</sup> In the banks and financial houses distracted men were reading telegrams and hearing news which showed that the marvellous international banking system was falling to pieces hour by hour; that panic was seizing the stock exchanges; that fortunes were dwindling as a block of ice melts in the summer sun. And all the time the

<sup>1</sup> Of whose neutrality Great Britain was one of the guarantors by the Treaty of 1839.

<sup>2</sup> It is interesting to speculate what part Broadcasting would have played from July to August 1914. For the part which broadcasting can play in making history live see *The Listener*, Vol. XII, No. 291, where there is a remarkable summary in dramatized form of the events and documents of the period June-August 1914.

European armies were mobilizing: the men were leaving their farms, their workshops and their homes, walking into the barracks as civilians and marching out as soldiers. Secretly and swiftly the fleets were moving to their war bases, guns ready for action, all lights out at night in case of treacherous attack.

August 4th, 1914, was one of the grim dates of human history, for when the British Government spoke, it did so in the name of 450 million human beings. The war was now definitely a world war. Another old world was dead and a new world was yet to be born; but first there had to be human misery the like of which no man had ever imagined.

## *2. Strategy and Tactics*

When the principal sovereign states of Europe marched forth to war in 1914 to the inspiring strains of martial music, the nature of the valley of the shadow of death through which the peoples were to pass in their quest for the mirage of victory was unpredictable. It is safe to write that if an inspired prophet in 1914 could have testified as to what was coming, he would have been certified as insane. The reality of 1914-18 was far more astonishing than any work of fiction. The Great War can surely claim to be the most remarkable single international activity ever undertaken by men. It was unique and defied precedent in every way. It was more horrible, more heroic, more gigantic, more nearly universal, more costly, more destructive, more catastrophic, more highly organized, more chaotic, more nothing, more everything, more significant, more meaningless than anything which had ever happened before in human history.

The story of the War falls into three phases—a first phase of five or six months from August 1914 to the beginning of 1915; a second phase which lasted for three and a half years, to be succeeded by phase three, which covered the period—July to November 1918.

The War was won and lost on the Western Front in France, but the titanic struggle in this area, a struggle in

which the Allies employed Indian troops, also negro soldiers from their African colonies, as well as Chinese to help behind the lines, was accompanied by tremendous campaigns conducted by the Central Powers against Russia in the East and Italy in the South. The British Empire conducted three simultaneous campaigns against Turkey. One at the Dardanelles, another in Mesopotamia, and a third in Palestine and Arabia. The German colonies in Africa were the scene of campaigns, one of which, in German East Africa, lasted into 1918. An Allied expeditionary force endeavoured to invade the Balkans after the Central European Powers had overrun Serbia. It is impossible in this book to do more than mention these "colossal side-lines," but some notion of the scope of the War can be derived by glancing at "The Brief Chronology of Our Own Times."<sup>1</sup>

## PHASE I

*August 1914 to January 1915*

During this phase the Central Europeans assumed the offensive and dominated the direction of the War. They adopted a defensive attitude on the Eastern Front—a strategy which yet permitted a German army under Hindenburg and Ludendorff to inflict a crushing defeat upon the Russians at Tannenberg—and threw the bulk of their forces against France. The plan was to advance with six armies in a semi-circular movement through Belgium and Northern France, capture Paris and take the French armies in rear. It all but succeeded. The French, who were joined on their left by the British Expeditionary Force, were forced to retreat, and the French Government fled to Bordeaux. But on September 6th, 1914, on the River Marne, a few miles to the east of Paris, the Allied armies, under Generals Joffre and French, assumed the offensive and checked the German advance. The invaders fell back to the River Aisne, and then began an extension of the fighting line north and south until it stretched in an irregular curve from the Belgian coast near Ostend, through Flanders just

<sup>1</sup> Appendix to Vol. II.

east of Ypres (Wipers) to Soissons, east of Verdun, and so down the crests of the Vosges Mountains to the Swiss frontier. By the beginning of 1915 this line was becoming static and the armies were going underground on either side of the "No Man's Land" of the Western Front trench system.

The establishment of these enormous defensive systems was the sign of many things. It was a sign that the first phase of the War was over, and it also marked the moment when Germany lost the War. It was also a sign that a new tactical conception of war had been born. During Phase I of the War the Central Powers gained an ally in the shape of Turkey—a state in which German influence had been active in the years immediately preceding the War, and in October 1915 Bulgaria declared war against the Entente Powers.

This first phase of the War was distinguished by a singular lack of offensive spirit on the part of the naval forces of the Allies and Germany. Fortunately for the Allies the German fleet did not accompany the offensive in France with an attack on the quite unprotected communications across the English Channel. The Grand Fleet, based upon the entirely undefended anchorage of Scapa Flow, adopted a watchful attitude on the principle that a fleet in being was essential to the Allied control of sea communications. It should be remembered that at this time the British Navy was all body and no brain. There was no proper naval staff, and for several years great attention had been paid to the question of building bigger and better<sup>1</sup> (?) ships, but none upon the art of how to use them in war. The curse of the British navy in pre-War days was the blind adoration in which it was held by the public, and the existence of nineteenth-century traditions, which needed restating in terms of modern life. A few German cruisers scattered about the world carried out commerce warfare for some months until they were hunted down.

<sup>1</sup> I saw two of the biggest blow up and vanish in a few seconds on May 31st, 1916, during the first part of the Battle of Jutland. See *A Naval Lieutenant 1914-1918*, by Etienne (Stephen King-Hall), 1919.

## Great War

### PHASE II

1915-1918

During this period the Central European Powers were in the position of a beleaguered citadel. Their problem was to break through the iron band which the Allies clumsily and ponderously riveted around them. The German strategy consisted in launching periodic attacks on the Western Front, of which the assault on Verdun was one of the most desperate and bloody until its horrors and energies were surpassed in the final and supreme efforts of the spring and early summer of 1918. Simultaneously, the German navy endeavoured both to break the British blockade and knock Great Britain out of the War by using submarines against sea-borne trade.

It was the business of the Allies to hold the Central Powers whilst accumulating man-power and material resources sufficient in strength to break the German defences<sup>1</sup> and so penetrate into the heart of the enemy resistance.

Phase II was a period of preparation, punctuated by attempts on either side—as at Verdun and on the Somme in 1916 and at Passchendaele in 1917—to resume the offensive. It was the period of attrition during which it was argued by both sides that sooner or later the enemy *must give way*. It was a period of great tactical ingenuity and complete strategical sterility; of tremendous sacrifices which cancelled out. From the political point of view it was the period during which Italy came to the conclusion that it would best pay her to join the Allies; that Russia—rotten within, battered without—collapsed into revolution and left the ranks of those fighting for democracy!

At this stage in the War, just when the Allied pressure on Germany was producing intolerable conditions in that country, the collapse of Russia left open a great gap on the East through which the besieged peoples could obtain access to the grain fields of the Ukraine, and it also permitted the Germans to overwhelm and conquer Rumania and

<sup>1</sup> The "Easterners" maintained that it was folly to direct the main thrust of the Allied effort against the German western defences.

release much-needed man-power for use on the Western Front. Ominously from the German view, the collapse of Russia coincided with the decision of the United States of America to enter the War. The United States, incensed at the operations of the U-boats, declared war on Germany on April 6th, 1917. It was during Phase II that a half-hearted attempt was made to penetrate the Central European citadel by the back doors of the Dardanelles and the Balkans [the Salonika Campaign].

There were signs in 1917, both amongst the Allies and the Central European Powers, that the strain of suffering, the seemingly interminable agony of the casualty lists on land, in the air, on the sea and under its waters, was proving to be more than flesh and blood could stand. War-weariness became apparent, and there were moments during 1917 when the word "Peace" was murmured. There were serious mutinies in the French army, but men were apparently in the grip of uncontrollable forces, and the War "carried on." It was during this second phase that there occurred the indecisive naval battle of Jutland, at which the British failed to realize that the purpose of a battle fleet is the destruction of the enemy's battle fleet. It was also during 1917 that the German submarines in the month of April sank three-quarters of a million tons of shipping. Had this rate of destruction been maintained Great Britain would have been in desperate straits by August. The introduction of the convoy system saved the situation. It was during the second phase of the War that in the case of all the belligerents the state gradually assumed almost complete control of national life. The Allies, with the command of the sea-routes at their disposal, drew upon the resources of the world outside Central Europe in order to forge a weapon of war which should be able to beat down the stubborn resistance of the Central Powers. The process was slow for three reasons. First, the Allies had to be taught by misfortunes and failures that they must subordinate their sovereign rights and national ambitions to the common purpose of co-operating in the prosecution of the War. They never succeeded in forming an entirely united team,

but they proceeded further along the path of international co-operation than had ever previously been the case in peace or war. Secondly, each state had to learn by a similar process of painful experience that "private enterprise" was incapable of grappling with the vastness of the manifold war problems. The maximum output of war energy on the part of a nation could only be ensured by planning, co-ordination and centralized direction. The directing authority was necessarily the state, but the state had to improvise the machinery of control, and especially in the democracies of France and Great Britain, the traditions of individualism and *laissez-faire* resisted the urgent demands of war needs. Thirdly, the building up of the Allied war machine was delayed and hampered by the need of compromising between planning for the decisive offensive and the need for holding in check the repeated attempts which were made by the Central Powers to break out of their beleaguered fortress. In these efforts the enemy were greatly favoured by their central position. On the side of Germany and her Allies it was clear, especially after the entry into the War of the United States, that Time was fighting on the Allied side and that military defeat was inevitable unless the set-back in 1914 on the Marne could be retrieved and the strategical offensive be regained. It was because Von Tirpitz realized that Great Britain was the fulcrum of the Allied lever that he pleaded long and passionately for the initiation of the unrestricted submarine war; but the Germans vacillated in their use of this powerful weapon and in the end failed to gain therefrom its full military possibilities, whilst it was the preponderating influence which caused the United States of America to range herself amongst Germany's enemies. At the beginning of 1918 Germany realized that, with the failure of the peace movement of 1917, to which reference has already been made, her last chance of victory lay before her. 1919 would be too late; it must be 1918 or never. Hindenburg, the supreme Commander of the German armies, and Ludendorff, his Chief of Staff, determined to make one final supreme effort on the blood-soaked, shell-torn Western

Front. They launched a thunderbolt at the junction of the British and French armies.

By the summer-time of 1918 the stupendous German offensive in the West, which had begun on March 21st, when half a million men were loosed against the British army, had failed, but only just failed. For three weeks, 101 German divisions had struggled to isolate the British armies from those of France, and by the capture of Amiens and the Channel ports present the British with the formidable and probably almost impossible task of evacuating Northern France. The British retreated to within a few miles of Amiens, suffered over 300,000 casualties, but managed to keep their backs to the wall and their faces to the enemy. The roar of artillery was heard in England in the training camps by the thousands of young soldiers, aged seventeen and eighteen, who were being rushed across the Channel to reinforce the armies. Notwithstanding a casualty list of half a million the Germans next struck at the French, and in some of the most desperate fighting of the War endeavoured to advance upon Paris from the east and north-east. Meanwhile American troops in great numbers were arriving in France and beginning to appear in the fighting areas. The critical state of affairs in the spring had at last persuaded the Allies of the vital necessity of sinking their jealousies and agreeing to the appointment of one man as Commander-in-Chief of the Allied armies. The post was given to the French General, Foch, whose decision to assume the offensive proved to be the end of Phase II of the War.

### PHASE III

*July to November 1918*

By the middle of July the Allies were able to inaugurate a vast counter-attack, which forced the Germans to retreat along the whole front. By September the Germans were holding precariously the positions from which they had advanced in March, but that ponderous swing forwards and backwards had cost them over a million and a half casualties.

The last Austro-Hungarian offensive against Italy had failed and the Empire was in a dissolution which culminated in an appeal for an armistice at the end of October.<sup>1</sup> Bulgaria, menaced by the advance of the Allied armies based on Salonika, had surrendered on September 30th. The Turks in headlong retreat in Syria and Mesopotamia were granted an armistice on October 31st. Only the Germans remained in action, and although they had resisted a world in arms with indomitable courage and fortitude, their time was at hand. The submarine campaign, designed to bring that deadly enemy, Great Britain, to her knees, had failed; the strangle-hold of the naval and economic blockade was crushing the life out of the civilians on the Home Front; skilful Allied propaganda was wearing down and disintegrating German morale; the vast strength of the United States of America was ponderously coming into action; and in the West the German army, the most impressive fighting machine known to history, was in retreat. Deserted by her Allies, Germany realized that she was facing a military disaster of incalculable magnitude and consequences. On October 28th the German High Seas Fleet was ordered to sea to engage in a desperate sacrificial battle with the British Grand Fleet. Fortunately for the sake of thousands of lives the German crews mutinied. It was the beginning of the German revolution. Already in the Reichstag there had been demands for the Kaiser's abdication, and it was in vain that the Liberal Prince Max of Baden, who had accepted the Chancellorship, endeavoured with the co-operation of a Coalition Cabinet, in which two Socialists held office, to save the situation by improvising a democratic form of Coalition Government. Bavaria declared itself a republic and the movement spread like wildfire. On November 9th the Emperor's abdication was announced, Prince Max resigned in favour of the Socialists, and at 2 p.m. on November 9th, 1918, Scheidemann, speaking from the steps of the Reichstag building, proclaimed that German Republic which was to live uncertainly for the next fifteen years.

<sup>1</sup> Signed November 3rd.

Meanwhile the military authorities, anxious to preserve the army intact before the Home Front collapsed, had insisted early in October that negotiations for peace were essential, and that month was marked by an exchange of diplomatic notes between Germany and the United States. President Wilson refused to compromise, and it was not until November 8th, when Germany was in revolution, that he told the Chancellor that Germany could apply for an armistice to General Foch. The Allies presented their terms. They were severe and designed to make it impossible for Germany to resume hostilities whatever might be the outcome of the subsequent negotiations for the settlement of peace. For example, the German submarines were to be surrendered forthwith, the blockade was to continue and the German surface fleet was to be interned under Allied supervision. All Allied prisoners, but not the German, were to be repatriated. The Allies were to occupy all territory west of the Rhine, including bridge-heads on the right bank. These demands were typical of the thirty-five clauses in the terms of Armistice. The Germans accepted these terms, and the Armistice which enabled the cease-fire to be sounded on the Western Front came into force at 11 a.m. on November 11th, 1918.

### *3. Destruction*

We have summarized the political developments in Europe which led up to the outbreak of war and we have sketched the broad outlines of its strategy. Something must next be said as to the terrific economic waste of the War. First, we must be clear that the term "waste" is used in a strict economic sense; that is to say, meaning the unproductive use of capital. Such "waste" may, of course, be considered—in certain circumstances—essential for ethical reasons.

The first and most tragic waste was that of human life. Men employed for the purposes of destroying life all the wonderful and powerful results of a century of rapid scientific progress during which the world's wealth-pro-

ducing capacity had multiplied about twelve times.<sup>1</sup> They used the aeroplane and airship to drop death from the skies; they employed the submarine, torpedo and the under-water mine which dealt death from the depths of the seas; the poison gas,<sup>2</sup> which was death carried on the wings of the wind. These were three weapons first used on a large scale during the Great War. The older weapons, particularly the machine-gun and the heavy artillery, were improved as killing-machines to a degree which made them many times more deadly than they had ever been. On the Western Front—the long battle-line from the Belgian coast to the frontiers of Switzerland—millions of French and British on the one side, and Germans on the other, struggled backwards and forwards within a space of a few miles, and every foot of shell-torn ground gained and lost was carpeted with the shattered bodies of the dead. In the swampy ground of Belgium men were drowned in the mud, and the battle-line was hedged with barbed wire upon which hung the rotting corpses of the infantrymen who had been mown down in their thousands by machine-gun fire. Division after division of young men, 10,000 strong, were thrown into the front line on either side. The troops waited in their trenches and dug-outs, disciplining the fear in their hearts. Overhead, the heavy shells sang and moaned as they fell in thousands of tons of high explosives and flesh-tearing metal upon the enemy trenches. The enemy artillery retaliated in kind. The soldiers waited perhaps for days until the fateful zero hour, the moment for the attack and the death sentence for thousands. Up from its trenches rose the battalions of the division, company by company, the men laden with packs and gas-masks, rifles and ammunition, over the top into the desolate waste of "No Man's Land," and slowly they walked forwards towards the enemy positions. Sometimes the enemy had been buried and broken by the artillery fire, and then a mile or two of ground might be gained, but often the

<sup>1</sup> See Figures I and II, page viii.

<sup>2</sup> Poison gas, first used by the German army, was produced in the chemical and dye-works of modern civilization. In peace-time these industries are amongst the most important in the life of modern man.

preliminary bombardment had been ineffective and then the division would sway and wither in the blast of lead from the machine-guns. The survivors would crawl back. Far back behind the lines in an office, waiting staff officers working over maps would hear that the division had been broken in attack, and its wreckage would then be withdrawn from the line so that its ranks might be filled anew by fresh young men from the training camps.

Here are some reflections made in 1933 by a survivor from the Battle of the Somme (1916):

"I was seventeen years old when the Battle of the Somme started; the youngest private soldier in my battalion. It was my first real experience of war—of dirt and blood, maimed men, wounded and killed—and I am going to give you the bare story of it here: just my own story, the experiences of one private soldier, nothing much to do with official histories of the battle.

"What was my mental reaction as I stood there on July 1, 1916, waiting for the signal to attack Beaumont Hamel:

"Seven-thirty a.m. Misty. Warm. It is to be a hot day. The great mine is exploded to schedule. Falling debris. I watch the handle of a pump as it falls. Then comes the attack, and my own momentary fears, while hesitating before going over. My immediate platoon comrade falls back into my arms. He is dead. And I have to tread over him to go forward. Getting through the wire is no fun. The barrage has done its best and what is left of the wire does its worst. This is the inferno I have heard about. Machine-guns are, as they say, 'mowing down like scythes.' Naturally, the Germans have an almost uninterrupted view of us over a long advance of some 200 yards.

"Well, I am over, and running like hell towards the objective, and as I run I wonder *why*, with what purpose? Is my mind on the job—to kill? *No!* What will I do when, and if, I reach my objective? I don't know! I seem to be alone. I stop. There swoops a low-flying

aeroplane. The observer leans far out and waves to me with sweeping arm. He points towards the German lines. Then I run again. Literally I can hear the bullets missing me. I am conscious of fallen comrades as I lumber along. There is a well-known face—another, and another. I pass a wounded subaltern, vainly trying to form some sort of a line. He is young, very white and tense. I stop. An attempt has been made to form a small line of defence post. I take cover, and snipe.

“A few men pass me, shouting. They are going back. Two of them fall. Apparently there is an order to retire. I am not hit—yet. Is it worth while running back to be shot from the rear? I move and take cover again, a little further to my right. My cover is a dead sergeant. I do not realize this until long afterwards, but his neck is my rifle rest. I start to dig myself in. I use my entrenching tool, as laid down in the *Field Manual*. What a hope! My fingers work faster, and my hands and nails are torn and bleeding.

“There is a slight lull. I realize that I am now apparently completely cut off, unless I scamper back, dodging low as I go. Is it worth it? I am still unhurt. There is nothing but dead to be seen. I am some twenty yards from the German front line. To my left a hand waves feebly to attract my attention. I shed my fighting equipment, to go and tend a wounded friend. It is—well, never mind. He is the wag of the platoon. He is also fat and heavy, and I am slight. I cannot even lift him to my back. Supposing I can, what will happen? It is all decided for me. He is shot again—fatally—and he collapses. I take a message (long afterwards it was delivered to his father). I cover his face, and make back for my rifle and equipment, and I am well attended by machine-gun fire. I am not hit.

“The hours pass. Time now noon. It is blazing hot, and the stench is awful. At 12.30 approximately I notice strange movements about the Bosche parapet. A head and shoulders in field-grey appears. I cover it with my rifle. I wonder again. I suddenly observe a khaki-clad

sergeant going towards the German lines. His hands are held above his head. He seems unhurt. Who is it? Why does he surrender? I turn to my German soldier again. He is wearing a white brassard with a red cross. I watch him carefully. He is joined by a second. There is a complete lull now in the firing.

"Next, a stretcher is hoisted up from the German trench. I can plainly see the lifting hands. My two Germans confer. I relax the grip on my rifle, and think. I decide that the trenches are blocked with the dead and wounded. These stretchers, apparently, bear blanket-covered bodies. My mental reaction—'Stout fellows!' They are joined by two more. There is a second stretcher. I become curious. Unconsciously, unwittingly, I raise my head and shoulders, the better to watch all this. Suddenly I am seen. To my amazement the stretchers are dropped now. There comes a shouted order in German. A Bosche soldier—I can see him now—seizes a rifle and fires point-blank. I have gripped my own rifle again by this time. His bullet takes away my right eye. Explosive! Part of my face seems to go, too. I fire, automatically. I get my man in the throat. Those stretchers bear loaded rifles and grenades. But I am still conscious.

"I lie quiet, watching. Two hand grenades are thrown. I roll on my side. A bullet gets me in the left lung. Three Germans retire in bad order. Shrapnel gets me. Top left ribs, shoulder blade, and collar-bone; all smashed. Machine-gun gets me—right shoulder. I lie on my back and laugh, almost hysterically, as a piece of high-explosive hits me over my eye. Then shrapnel in the left thigh, also the leg. That is a broken bone. All this happens in a few moments. I try to crawl, and then lie still. I am not unconscious.

"Next, dusk. I am partially conscious. A Tommy drags himself past me, ghost-like, one leg gone. He crawls back to me with several water-bottles. Bless him! He takes my hand and promises help, if he gets in. (He did not.) I make a temporary dressing for my face,

using earth and water, which stops the bleeding. It is dawn. I have great pain and feel nearly all in. Then comes a blank. I waken to night again. I manage a little tepid, pretty foul water. That doesn't do. I have a hæmorrhage of the lung.

"Why did I remember to turn my feet towards the British lines? I did. I am partially conscious again. It seems to me still night, when I have a temporary return of strength, and with that, thoughts of getting in again. Home. London. I get on my feet, God knows how. I remember the Verey lights. I must be a well-trained soldier." "I recall the maxim: 'Keep still when those lights go up.' I half walk, half crawl. It is an unending nightmare journey. I make our barbed wire—after how long? I am challenged! I cry out, but no sound comes from my lips. It is almost dawn. They can see me, and that I am in a bad way.

"I am helped in. I ask the day. July 4! I have been out nearly three days. They tell me that the remnant of my battalion has gone up to Ypres. The line is skeleton-held. I must find the M.O.'s dug-out, unaided. The M.O.'s face seems kind, but grotesquely huge. I ask:

Am I going back?' He smiles. His face becomes even larger and more beaming. Iodine—bandages—scissors. My tunic is quickly cut from me. Morphine under the tongue. Peace. Sleep and rest.

"I recover consciousness in a hospital bed. The date is July 6, and I am in Hampstead, London. Pain. . . .

. . . . .  
"There is a sequel. When we attacked, Bavarian troops were in front of us. Early in 1917 I was back with a commission, and transferred to the Royal Flying Corps. Eight years later I had hæmorrhages. I landed up in Munich, in Bavaria, where a Bavarian surgeon took the bullet from my lung. It was a Bavarian hospital." <sup>1</sup>

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<sup>1</sup> Extracts from "A Broadcast," by Derek McCulloch, on the National Programme, the B.B.C., London. Mr. McCulloch is now (1934) director of the Children's Hour at Broadcasting House.

In the Italian Alps, in the Balkans, in Poland, in Russia, in Mesopotamia (Iraq), in Palestine, in Central Africa, there were battle fronts. British armies invaded Turkey at the Gallipoli Peninsula and clung there for over a year before withdrawing with a total loss of 130,000 killed, wounded and missing. In pre-War days the Gallipoli campaign would have been an important war, but in the Great War it was a passing incident.

At sea the British navy held the German fleet in check in the North Sea and established the blockade of Germany and Austro-Hungary. In 1915 the increase in the death rate amongst German civilians was  $9\frac{1}{2}$  per cent.; in 1916 it was 14 per cent.; in 1917 it was 32 per cent. A British official document says: "The increase of the death rate was higher among women than among men, since there was always a tendency for the woman to give up to her children, or to her husband, a part of the inadequate ration allotted to her."<sup>1</sup>

By the end of the War, Germany was almost completely cut off from the outside world and the German people were enduring great hardships. The German surface fleet could not break the blockade, so her U-boats dived underneath it and made war on merchant ships carrying men, material and food-stuffs to and from Allied ports. During the War Germany built 441 submarines, of which 191 were destroyed in action. In April 1917 the chances of a ship leaving Great Britain on a voyage and returning safely were one in four. At this time when the submarines were being most successful the British had 3500 merchant ships of over 1600 tons. Of these 1100 were required for carrying food and ammunition to the armies, and it was estimated that if the U-boats continued to be successful, half the British shipping would be at the bottom of the sea by December 1917. During 1917 the U-boats sank 2439 ships of 5,613,000 tons, at a cost of 66 submarines; but this was their best year, for in 1918 74 U-boats were lost for a total of 1035 ships of 2,556,000 tons.

It was U-20 which torpedoed the *Lusitania* within sight

<sup>1</sup> See pp. 74-76.

of the Irish coast. She sank with a loss of 1198 men, women and children—of whom 114 were Americans. This horror was worse than a crime of war, it was a stupidity in foreign policy, which more than anything else convinced the American people that they should join the Allies in the fight against the Central Powers. The neutrals, especially Holland, Norway and Sweden, suffered intensely from the blockade, for the Allies controlled the shipping and the resources of the world and strictly rationed the peoples of neutral countries lest they supplied goods to Germany. The Norwegian merchant fleet lost over a million tons of shipping and 1200 men as a result of mines and torpedoes. The loss of life as a direct consequence of the War was impressive. Its cost in treasure was incalculable, but a picture can be sketched of its effect upon the world economic system.

We have already pointed out that in a general way the production of goods and their exchange by trade was proceeding in the pre-War years in a comparatively stable and orderly manner. We have stressed the fact that though a century of evolution had produced a system markedly different from the more or less complete *laissez-faire* system which had existed, say, in 1850, yet in 1915 there was still more free trade than controlled trade, more flexibility than rigidity in man's conduct of his economic affairs.

It was to such a system that the god of war suddenly addressed his inflexible demands in 1914. These demands were tantamount to an order to commit suicide. Obedient to the orders of man its creator, the world system began to adjust and adapt itself to this task of self-destruction. There was something of the grandeur of a great tragedy in the method by which the system began to compass its own fate. In the first place, its productive energies were twisted out of the natural channels to which they had been directed by men's peace-time demands, and diverted to meet the special needs of warfare. These needs were the production of machinery and appliances which could be used to destroy life and wealth. On the monetary side the international structure was wrecked, not only by the political

breach between the groups of warring countries, but also within each group by vast borrowings and inflations. It was as if men had decided not only physically to destroy themselves and their wealth, but had also taken out a kind of insurance policy against recovery. This policy was as ingenious as indeed it proved effective. It was as if men had said to themselves: "It is possible that we shall fail to make the system produce enough material with which to bomb and shell and blast the world to pieces, to sink every ship, destroy every house and kill every human being. Should this turn out to be the case, we can at least leave the economic system in ruins and make it almost impossible for it to recover again by saddling it with an enormous load of debt. We will finance the special war effort (which in itself is such a distortion from the normal that its effects will be ruinous) by inflation and huge obligations on the future which will keep the wreckage in the dust, for then, if at any time in the future, we should change our minds and wish to cease destruction and begin construction, this dead-weight of debt will be such a load on society that it will hardly be able to heave round. Moreover, it will be impossible to scrap this debt because it will be, for the most part, government debt; and whereas credit (belief in the sanctity of contracts) is the presiding spirit of the economic system, government credit is the holiest and most sacred of all its forms."

These are the only rational conclusions the Gods could have reached had they been asked to explain men's economic actions during the War, and if one desires to see these things in proper perspective, it is necessary to ask permission of the Gods to share their view-point. Even to-day (1934) it is very far from being realized by most people that from the economic point of view the World War was the most efficient effort of international co-operation for wealth destruction ever recorded in history. There is no space in this book to describe the tremendous and awe-inspiring efforts made by the system to shatter itself. Spurred on by the fanatical war fury of man, its master and operator, it bit itself

like a mad animal. It threw itself upon itself with grinding and clashing force. It distorted itself until many of its parts were unrecognizable to those who remembered the orderly, smooth-working, well-balanced affair of pre-War days. Every economic law was defied in this rake's progress towards disaster, and each breach was condoned in the name of patriotism and the imperative need of winning the War. It survived because man forgot that his economic (and his political) system is only a projection of himself. Economists often comment in tones of surprise during periods of crisis on the "endurance of the system," just as at the outbreak of war eminent authorities proved to their own satisfaction that on "economic grounds" the war would be short. These theorists forgot that man is half a god, half a devil, and he can always learn to endure any conditions he has learnt to create. It took him over four years to admit that he could not utterly destroy his universal creation because he could not destroy himself. The god in man cannot create or destroy himself; he is Life—immortal and eternal, without beginning or end. When this discovery became general the War ended.

The economic confusion was tremendous.<sup>1</sup> In Central Europe there was a famine both of food and raw materials. In the victorious countries enormous stocks of war materials (including, of course, commodities other than munitions of war) lay heaped on all sides, yet there were great shortages of things useful in peace but needless in war. Inflation was rampant and a storm-cloud of internal debt overhung every country. Internationally the problems of Reparations and War Debts darkened the future. Legal restrictions hampered the natural course of trade. By 1918 the world economic system had become a World-War economic system. In many respects it was a new system designed and operated for the sole purpose of producing fuel for the furnace of war, quickly, in great quantities and regardless of expense. It was a system from which private enterprise had almost disappeared, since in all countries the state, so much despised as an executive and admini-

<sup>1</sup> See Chapter III.

strative organ by "private enterprise," had been obliged to take over from the feeble and cautious hands of the private capitalist the problems of producing and distributing wealth on a scale undreamt of by any captain of industry. No grocer or butcher in peace-time had ever anticipated that he might have to undertake the job of feeding a nation; no shipowner had ever supposed he would have to control and operate through mine and submarine infested seas the combined shipping of several nations; no newspaper owner in his most exuberant moments had ever supposed that he would have the responsibility of making a whole nation think according to instructions. So the state stepped in and set up ministries of food, of shipping, of propaganda, etc. By 1918 this new World-War economic system, which had arisen phoenix-like from the ashes of the old peace system, was becoming very efficient for its special war-time purposes. This efficiency was due to a variety of causes, of which only two need be mentioned here. Geographically this new war system for the production of destructive forces was divided into two groups, rival but similar. One was centred in London; the other in Berlin. One group was maritime and depended on ocean transport; the other was continental and operated through its land communications. The whale contested with the elephant; the ship with the railway train. The competition between the groups of the system was intense, and since the penalty of failure was death for the masters of the defeated unit, a very high standard of efficiency was maintained. For example: when the Germans produced the Fokker aeroplane, which flew through the skies shooting down the inferior aerial products of the Allies, the latter were spurred to frantic efforts in their desire to produce a plane to shoot down the Fokker. Again, the creation of the Ministry of Munitions in Great Britain was the reply of the Western Powers to the initial success of the heavy artillery of the German system. Secondly, the men who were working night and day to increase the war effort were actuated by the ideals of national victory and not by that private profit-making

urge which was the normal stimulus of their peace-time activities. In fact, it was considered so wicked and improper for an individual to make large profits out of the production and distribution of material for war needs, that the word "profiteer" became a term of reproach and even a qualification for imprisonment. This intense competition between the rival parts of an economic system dressed in war uniform and the selfless spirit in which men administered these two creations, were factors which enabled feats of organization and production to be achieved which would have been unthinkable in the days when economic activity was energized not by patriotism but by the hope of private profit-making.

Before leaving this description of the metamorphosis of the economic system during the War years, it is necessary to point out an interesting fact in connection with the distribution of much of its production. Huge quantities of the goods produced so rapidly and on so vast a scale were given away to consumers. Millions of tons of steel (in the form of shells) and of weapons of all kinds, motor transport, clothing by the mile, food-stuffs, etc., etc., were distributed gratis to the armies, who were only able to keep up their rate of consumption by hurling much of this material at the enemy (again, free of charge). The rough conditions of war, the dangers of movement on the seas, were factors which ensured a consumption of goods and shipping on a scale which alone made it possible for the producing factories and shipyards to get rid of their stocks. It was the most glorious example of mutual dumping<sup>1</sup> ever known.

#### *4. Glory and Comradeship*

It would be wrong to think of the Great War as being nothing more than four years of misery, waste and sorrow. There was another side of this business of which something must be written. It is the view of great war which will

<sup>1</sup> In fact, large heaps of war material waiting to be consumed were called "dumps."

rise most clearly before the eyes of the people if ever the day dawns in the times to come when they must choose between war and peace.

It may seem to us, looking back down the vistas of twenty years, that in 1914 the national states, like the pigs in the New Testament, went mad and rushed down a steep slope, but we must be careful to remember that to the men of 1914 the War appeared as a great and glorious crusade, or a stern duty which no honourable man could avoid. A victorious ending to the War was of more importance than life to the average man in every belligerent state, and of importance, be it understood, not because of any gain which might arise from victory. The statesmen thought perhaps of gain for their state, but even so it was because they believed that such gain would make their peoples richer and happier and more secure. But, the ordinary man desired victory—at all events in the earlier years of the War—because he felt that great issues of right and wrong were at stake and he was fighting for the right against the wrong, for justice against oppression, for truth against lies, for God against the Devil.

The Great War seen in this way became something noble, where glories covered with a splendid cloak the horrors of the battle and blockade. Men in each national state forgot their class differences and felt a new and pleasant sense of comradeship as they stood shoulder to shoulder in the trenches, or worked long hours in munition factories.

Man rejoices in a struggle. The record of his time on earth is one of struggle, of overcoming difficulties. For thousands of years man has been fighting with nature, prying into her secrets, mastering her forces, and bending them to his will. It is well that man should struggle, that he should explore his earth, that he should drag the metals and coax the crops from her soil, fly across her mountains, her seas and her plains, and send his thoughts round the earth and back again with the speed of light. It is well that man should go up to battle against disease and win victories in his laboratories which saved thousands of lives. These are noble struggles and worthy of sacrifice. The Great War

seemed also to be a worthy struggle, and so the combatants made great sacrifices and were heroes in a cause which had no meaning, for it was a struggle of man against himself, and therefore could only harm himself. Man was his own enemy.

During the Great War the ideal of the brotherhood of man was not far from being achieved within the limits of each warring nation. The desperate nature of the struggle caused men of the same nation to sink their petty disputes in order to combine against the "enemy." The citizens of the fighting states lived up to Drake's exhortation when, in a speech to his men on his famous voyage round the world [1577-80] he said: "I must have the gentlemen to haul and draw with the mariners and the mariners with the gentlemen. . . . Let us show ourselves to be one company."

But this sense of being "all one company" which is still a cherished memory amongst millions who came through the War,<sup>1</sup> was almost wholly limited by the boundaries of the nation. To a slight extent it spread between the nations who were allied on either side, as sheer necessity brought about co-operation between nations who were leagued together. Towards the end of the War, the German and Austro-Hungarian Governments were almost working as one. During the last year of the War the Allied armies in France were commanded by a French supreme commander (Marshal Foch); American ships sailed in the Grand Fleet under the orders of Admiral Beatty; and the immensely complicated business of supplying the armies was more and more controlled by Allied Boards, on which each national state had its representative. In Great Britain party politics were forgotten and the War Cabinet contained representatives from the British Dominions, one of whom (General Smuts) not many years before had been an enemy leader in the Boer War.

It needed practical experience to make men understand that in the complicated modern world the vast problems

<sup>1</sup> Much as I hate the foolish cruelty of war, I often let my mind dwell with pleasure on the comradeship which existed between those of us who were ship-mates for three and a half years in a small cruiser in the North Sea.

of great war, such as feeding your own nation or starving the enemy nation, can only be carried out by team-work and co-operation upon a huge scale. A lesson of the Great War which is usually forgotten is that it proved that hardly any task is too great for a modern nation, if the people co-operate to carry it out. To-day (1934) we shrink in Great Britain from the task of getting rid of our slums. This job would have seemed a very small affair to the men who were running the War in 1918 in Great Britain, France, the U.S.A. and Germany.

How wonderful is Man! In war he will appeal to God for victory in the name of the peaceful Jesus, and from every Christian pulpit appeals for cannon fodder will mingle with prayers for the overthrow of the enemy.

Man is so brave that he will face an awful death for a foreign policy he cannot understand, so cowardly, he will close his eyes to the horrors of the slums in his own town. So generous, he will give his life for his friend; so mean, he will try to swindle his own government in time of war. So clever, he can invent an aeroplane; so foolish, he will use it to drop bombs on the customers to whom he sells goods. So tender-hearted, he will care for a wounded enemy as if he were his brother; so cruel, he will set up a naval blockade and starve the women and children of enemy countries. These things are true of Everyman.

### *5. War-Weariness*

By 1918 the Great War had become so vast, so relentless, so seemingly unending that it was out of control. No government could state clearly why it was fighting or what were the conditions upon which it would make peace. Men were not fighting the War to live, or to gain freedom; they were living and subjecting themselves to loss of liberty of every kind in order to fight the War. The crusading idea which had inspired millions in 1914 had passed away and all the peoples were weary, sad and despairing. There had been mutinies in some of the armies, especially that of France: there had been labour troubles in England: the

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Italian army had broken and fled from the battlefield of Caporetto until rallied by reinforcements from France and Great Britain: the German peoples were hard put to stand the strain of the blockade; the Austrian Empire was falling to pieces; and Russia was out of the War. The Central European Powers (Germany and her allies) were nearest to collapse, for the Allies at a dark moment in their fortunes had received tremendous help by the entry into the War upon their side of the U.S.A. The encouragement was doubly useful. It was an enormous moral uplift for the Allies to feel that the greatest neutral state left in the world had given their cause her blessing, and it was most depressing to the German nation to feel that world public opinion was crystallizing against them. It was also of great value to the Allies because it brought on their side the American armies, fresh and anxious to prove their bravery in battle; also the vast resources of America's wealth. The loss of Russia in the East was more than compensated by the gain from America in the West.

In 1914 the Great War seemed to men to be a means towards an end of some kind. It was to be an ordeal for a purpose. By 1918 the Great War had become an end in itself. Purposeless, beyond understanding, a war without end for ever and ever. Amen.

Germans still spoke of "defending the Fatherland"; Frenchmen still cried "debout les morts," and died "pour la France"; but all these peoples lived, toiled and died in what seemed to be a nightmare in which man was no longer master of his fate or responsible for his actions.

Suddenly, in 1918, with the swiftness of sunrise and sunset on the Equator, the Allied darkness became dawn and the Germans were lost in the blackness of defeat. We have already described how the tremendous German offensive which was launched in the spring-time of 1918 in the shell-gashed valley of that little French river, the Somme, rolled forward majestically and irresistibly for a space, was then held and in the summer flung back by the Allied offensive of a hundred days. We left our account of the strategy and tactics of the War on that

eleventh day of November 1918, when at eleven in the forenoon a strange silence succeeded the tumult of the battlefield.

Only a national state utterly defeated could have brought itself to accept such a bruising of its sovereign rights as was contained in the severe terms of Armistice which were offered to and accepted by the German Government. Many Germans felt that though the "Home Front" had cracked and given in, yet their army was still intact and undefeated in the field, and that Germany should have rejected the humiliating terms and continued to struggle—behind the barrier of the Rhine, if need be. Such men found consolation in the thought that the Armistice would be followed by the peace negotiations and that the presence of President Wilson, representing America at the treaty making, would mean that *this* treaty would be different from the type of treaty which had usually ended wars. There can be no doubt that Germany sued for peace and accepted the Armistice terms because she could fight no more; there is also no doubt that in deciding that she must submit to the judgment of the Allies she consoled herself with the thought that the ferocity and hatred of her enemies would be checked by the idealism and love of justice of the American President, who had said that the peace must be "a peace without victory," and that "no people must be forced under sovereignty under which it does not wish to live. No territory must change hands except for the purpose of securing for those who inhabit it a fair chance of life and liberty. No indemnities must be insisted on, except those that constitute payment for manifest wrongs done. No readjustments of power must be made except such as will tend to secure the future peace of the world and the future happiness of its peoples."<sup>1</sup> It was also President Wilson who had set forth his famous fourteen points<sup>2</sup> which it was understood—at any rate in the defeated countries—were to be the guiding principles of the peace treaties.

<sup>1</sup> President Wilson to Provisional Government of Russia, June 9th, 1917.

<sup>2</sup> See p. 87.

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When all was lost on the battlefields, in the hush which followed the turmoil of the fight, a hush only broken by the cries of despair from the starving millions of civilians in Central and Eastern Europe, it was to President Wilson and the greatness of heart of the American people of whom he was the leader that the defeated turned in search of a saviour.

## CHAPTER III

### SALVAGE WORK

"The art of arranging how men are to live is even more complex than that of massacring them."—GEORGES CLEMENCEAU.

*Grandeur and Misery of Victory.*

#### I. S O S

THE maroons whose bangs as they exploded over London on the morning of November 11th, 1918, told the waiting populace that an armistice had been signed on the Western Front, also reminded all those whose minds were capable of thinking beyond the emotion of the moment that the immediate horrors of peace were scarcely less forbidding than those of the late war. In the words of General Smuts: "The War has resulted, not only in the utter defeat of the enemy armies . . . we witness the collapse of the whole political and economic fabric of Central and Eastern Europe. Unemployment, starvation, anarchy, war, disease and despair, stalk through the land. . . . A large part of Europe is threatened with disaster and decay. Russia has already walked into the night, and the risk that the rest may follow is very grave indeed. The effects of this disaster would not be confined to Central and Eastern Europe, for civilization is one body, and we are all members of one another."

For four years the civilian population of the western world had been trampled underfoot in the battle between the Allied Whale and the Central European Elephant, between the oceanic and the continental systems. Thousands of children had been born into a world in which the bare necessities of life were endangered, on the one hand by the Allied blockade of the Central Powers, and on the other by the German U-boat attacks on seaborne supplies. Of

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the two, the populations of the Central European countries had fared infinitely the worse, although, as was suggested by the appalling death-roll of the 1919 influenza epidemic, the stamina of the Allied peoples may have been materially undermined by the privations of war.

Many of the readers of this book may not remember the days when bread and meat in Great Britain were strictly rationed, when one took one's allowance of sugar out to tea or made shift with saccharine, and real butter seldom appeared except in very small quantities upon the tables of the rich. Days when experiments were made with concrete ships, and the Admiralty fought the Ministry of Shipping for priority in the allocation of the dwindling supplies of steel and man-power.

Of the Allied Powers the greatest sufferer was France, since the areas which had been wholly or partly occupied by the German armies were those in which her chief centres of mining and industrial activity were situated. Three-quarters of the annual output of coal, zinc and sugar; three-quarters of the metallurgical and machinery factories; 80 per cent. of the woollen, and 90 per cent. of the linen industry had been within the occupied zone, many of them actually under fire. The damage done by the military operations had been aggravated by deliberate destruction on the part of the retreating armies. Factories had been destroyed, coal mines flooded, railways, bridges and buildings wantonly wrecked. When to this is added the agricultural wastage it is not surprising that at the end of the War the area under wheat in France was 25 per cent. less than before the War; the coal output reduced by 50 per cent., and of the 1820 industrial enterprises in the occupied territory only 835 had begun to work by October 1919. Moreover, France had to face the colossal task of reconstruction with her relatively sparse population deprived of the 1,380,000 able-bodied men she had lost in the War.

The Belgian economy was in considerably better shape. Outside the narrow battle zone in Flanders the damage done was far less than that in North-Eastern France. Many of her factories had suffered and her stocks of raw materials

had largely been requisitioned by the army of occupation. But her food supplies, and consequently the general health of her people, had been kept up during the hostilities by the Commission for Belgian Relief.

Italy had suffered less from the actual ravages of war than from the curtailment of overseas supplies of fuel and raw material and, to a lesser extent, of food. The Mediterranean was one of the areas in which it had been very difficult to check the activities of enemy submarines.

From a short-term point of view the position of Great Britain at the end of the War was comparatively satisfactory. As mentioned in Chapter II, the crisis, as far as she was concerned, had been reached in the spring and early summer of 1917 when her losses from submarine attacks had reached the appalling figure of over half a million tons in one month. Thanks to the introduction of the convoy system, the increased output of new ships and the efficient management of such shipping as was available, Great Britain at the end of the War was in better circumstances than any of the Allies and associated Powers, always excepting the United States. Even so, the volume of British imports by the end of 1918 was over 19 million tons or 35.5 per cent. less than in 1913, about one-third of the reduction being in food, drink and tobacco. Only by strict regulation of imports giving priority to essential articles had this shortage of overseas supplies been rendered tolerable. The output of coal had fallen by 17 per cent., the ports and transport systems were worn out with War traffic, the cost of living had risen to about 140 per cent. above pre-War figures, and a great task of social and economic reconstruction awaited attention.

From a long-term point of view Great Britain had suffered in the War to an extent, and in a manner, which was not immediately apparent. It was from the radical effects of the War on the volume and direction of world trade that Great Britain was to suffer. Not only had her shipping been depleted, and her export trade dried up—with evil effects upon her financial position—but, deprived of their usual sources of supply, many overseas countries which had

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formerly been sources of food and raw materials, had industrialized themselves in a manner which was to necessitate radical reorientation of British industrial and commercial policy. The Great War dealt a savage and wellnigh mortal blow to the world system of finance and commerce of which Great Britain had been the centre, and from whose activity she had prospered during the nineteenth century.

The neutrals had not escaped. Consider—as an example—the case of the Dutch, whose misfortune it was to be ground between the British and German war machines. Threatened by Germany with invasion and dependent upon that country for coal, iron and potash; squeezed by the British Ministry of Blockade upon whose goodwill the Dutch were dependent for all sea-borne imports, such as cereals and fertilizers, the Hollanders were literally between the devil and the deep sea. Both belligerents were anxious to obtain Dutch agricultural exports. Britain wanted to force Dutch shipping into the service of Allied transport, whilst Germany wanted to keep it off the seas. In 1917 the trade of Rotterdam was but 10 per cent. of what it had been in 1913. Bread cards were introduced in February 1917 (2800 grammes per head per week); in March 1918, the bread ration was cut by 50 per cent. In 1917 the cotton mills were reduced to a sixteen-hour week. In January 1918 they were nearly all closed for lack of raw cotton. To a somewhat lesser degree Norway, Sweden and Denmark were in a like state.

If such was the situation in victorious and neutral countries, that of Germany and her allies was infinitely worse. The deadliest effects of the Allied blockade of Germany were not so much in the restriction of food supplies from overseas as in the curtailment of imported fodder and fertilizers. German agriculture is managed upon intensive lines, so a reduction of the nitrogen<sup>1</sup> available for agricultural purposes by over 50 per cent., and of the supply of phosphoric acid by over 70 per cent., had reduced

<sup>1</sup> The works established for the extraction of nitrogen from the air were hampered by lack of fuel and labour and their output was mostly used in the production of munitions.

the fertility of the soil at the end of 1918 by 40 per cent. The shortage of fodder became acute, and in 1919 British experts failed to discover one first-grade beast in the Berlin slaughter-houses. Cattle herds had been reduced by 18 per cent. and pigs by 60 per cent. The milk yield of cows was seriously reduced and the total output of milk in 1918 had fallen by about 50 per cent.<sup>1</sup> The milk supply in Berlin was down to one-fifth of its normal proportion. In the summer of 1918 the poor in Berlin were reduced to a weekly ration per head which consisted of: 4 lb. of indifferent bread; 7½ lb. of potatoes; ½ lb. of meat (when obtainable); ½ lb. of sugar and minute proportions of fish, fats, cheese and jam. In the terrible "Turnip Winter" of 1917 the calorific value of the staple ration had fallen to one-third of the normal quantity needed for health. The cumulative effect of these conditions was reflected in the vital statistics of the civilian population, amongst whom the death-roll was 37 per cent. higher than before the War. The birth-rate had fallen by nearly one-half and in the twelve months ending June 1918, the total deaths exceeded the total births by 885,000. By 1918, three-quarters of a million German civilians were dead who would have been alive but for the blockade. It has been estimated that 80 per cent. of the children attending public schools were suffering from rickets and that the mortality in Prussia from tuberculosis had increased to two and a half times the pre-War figure. The houses of even well-to-do people were infested with vermin owing to lack of soap; new-born babies were wrapped in newspapers for lack of cotton, and the dead were buried in mass graves because there was no wood for coffins. The shortage of raw materials was so acute that the Government was commandeering metal window fastenings, buttons, toy soldiers, and billiard-table cushions (for the rubber).

In 1919 the food shortage was aggravated by a complete disorganization of the transport system owing to lack of fuel, raw materials and labour needed to undertake the

<sup>1</sup> C. E. Fayle, *Seaborne Trade*, vol. iii, p. 425 *et seq.*, a source to which I am indebted for much material in this chapter.

urgent task of reconditioning the railways after the wear and tear of war. As Norman Angell succinctly puts it, "Famine may be quite as much a problem of spare parts for locomotives, or of lubricants and coal, as of food."

The task of repairing these ravages was one which might have embarrassed a victorious Power with all the resources of the world to draw upon. But it must be remembered that not only was Germany at the mercy of her enemies with regard to permission to purchase and ship the much-needed supplies, but also that she was gravely hampered by difficulties of finance. The pick of German securities in North and South America and in many neutral countries had been realized during the War, and it has been estimated that of the £1000 million of German foreign investments existing in 1913 not more than £20 million was available at the end of the War for the provision of credits.<sup>1</sup>

Terrible as was the situation created by the War it threatened to be greatly worsened by the terms of the peace. The anticipated effects of these terms can be illustrated by summarizing Count Brockdorff-Rantzau's letter of protest written to M. Clemenceau during the discussions on the Peace Treaty: He pointed out that Germany had changed from agriculture to industry during the thirty years before the War, and that in 1913 she had imported twelve million tons of foodstuffs, whilst it was estimated that at the same date fifteen million men depended for their livelihood on foreign trade, shipping and industrial processes concerned with the working up of raw materials imported from abroad. He complained that the difficulties which confronted the German people would be enormously increased by such parts of the Peace Treaty as included the surrender of the German mercantile marine and the obligation on the part of Germany to build tonnage for the Allies; the surrender of her colonies; and the surrender of 21 per cent. of the cereal and potato-growing areas in Eastern Germany. He pointed out that Germany was to be condemned to lose one-third of her output of coal; over half her steel output and three-fifths of her zinc

<sup>1</sup> *Seaborne Trade*, iii, 429, quoting Cmd. 280, p. 9 and Appendix 22 (a).

output from Upper Silesia. He declared that Germany would have to increase her food imports since refugee Germans were pouring in from the Succession States.

Lest this statement be thought to proceed from the natural inclination of the German delegation at Paris to paint an unduly black picture we may supplement it with an extract from a British official report which says :

“ Before the War Germany produced 85 per cent. of the total food consumed by her inhabitants. This large production was only possible by high cultivation, and by the plentiful use of manure and imported foodstuffs, means for the purchase of these being furnished by the profits of industry. . . . The loss to Germany of 40 per cent. of its former coal output must diminish the number of workers who can be maintained. The great increase in German population during the last twenty-five years was rendered possible only by exploiting the agricultural possibilities of the soil to the greatest possible extent, and this in its turn depended on the industrial development of the country. The reduction by 20 per cent. in the productive area of the country and the 40 per cent. diminution in the chief raw material for the creation of wealth, renders the country at present overpopulated, and it seems probable that within the next few years many million (according to some estimates as many as fifteen million) workers and their families will be obliged to emigrate, since there will be neither work nor food for them to be obtained from the reduced industries of the country.”<sup>1</sup>

Moreover, at a time when Germany was faced with the apparently insuperable task of financing the import of food and raw materials, of reconstructing her transport system, and of re-establishing an industry capable of providing an export surplus out of which to pay reparations, her entire political system was in ruins. The resignation of Prince Max of Baden on November 9th, 1918, had been followed

<sup>1</sup> Norman Angell in *The Peace Treaty and the Economic Chaos of Europe* (The Swarthmore Press), quoting Cmd. 280, *Report on Food Conditions in Germany*.

by the establishment of a Provisional Socialist Government, the flight of the Kaiser to Holland, and the abdication *en masse* of the minor German sovereigns. The administrative system had collapsed, both at the centre and in the states, and the weakling German Republic was left to face a situation which might have daunted a Bismarck in the plenitude of his power.

The collapse of Germany, or rather of the military machine which for over four years had controlled the life of the nation with a ruthless efficiency, not only removed the administrative backbone of a great nation, but it also removed the steel framework within which all the resources of Central Europe, Bulgaria and Turkey had been concentrated upon the prosecution of a single purpose. When the German military organization disappeared, the directing centre of the activities of nearly 200,000,000 human beings was no more. Central Europe from the Rhine to the Vistula, from the Baltic to the Adriatic, was economically void and almost without political form.

Bad as were conditions in Germany and Northern Europe, the state of affairs in the areas which had figured on the map as the Austro-Hungarian state was even worse. The disappearance of the central Hapsburg Government removed the administrative structure which had held together in uneasy companionship the racial and nationalistic mixture of the Empire. The army was demobilizing itself since there was no War Office to direct proceedings, whilst the territories of the old Empire, less the areas of Austria and Hungary, were being parcelled out amongst the Succession States (Czechoslovakia and Yugoslavia), Rumania and Poland. Many of the disbanded soldiers were not sure of which national state they were in future to be citizens. Pending the decisions of the Peace Conference at Paris as to the position of the new frontiers, all the heirs to the possessions of the old Empire were busy staking out claims and entering into military occupation of districts they hoped to annex. The anarchy, destitution and despair of Central Europe constituted a great pile of tinder which only awaited a spark of revolution in order to burst into a conflagration

which might sweep over the whole Continent. Across the eastern frontiers of the old Hapsburg Empire, Bolshevik Russia, like a blazing catherine-wheel, was showering sparks into the neighbouring lands. One alighted in Budapest, and for six months Hungary endured the Red Terror of the Bela Kun regime. Sporadic outbursts occurred in Rumania and in Italy. Short of beating out the Russian revolutionary fire by force of arms the only way to check its advance was to reduce the inflammability of the material in its path. Bolshevism, in short, must be fought with Food.

The problem which confronted the victorious Allies was complicated, and could not be evaded. Both for humanitarian reasons and for reasons of political expediency something had to be done to save Central Europe. The Allies had caught the principal Central European bear and were actively engaged in drawing up a Peace Treaty which was to set forth exactly how the bear was to be skinned; in 1919 there seemed a grave danger that unless the chained animal was given some sustenance he would turn out to have no pelt.

## *2. First Aid*

The problems which faced Europe during the period immediately following the Armistice fall into two categories, which for convenience may be termed "First Aid" and "Reconstruction."

The question of First Aid can be summarized as the need of providing Central and Eastern Europe with enough food to enable its peoples to carry on till the harvest of 1919. This question in its turn was dependent to some extent on the provision of the requisite finance, but to a greater degree upon the supply of shipping facilities.

During the War 12,850,000 tons gross of shipping had been destroyed, and although a considerable proportion of the destruction had, by 1918, been made good by new building, the amount of shipping available for the import of food and raw materials was still far short of what was

necessary. One-third of the total shipping of Great Britain, France, Italy and the United States was employed solely on naval and military service, whilst about three million tons of German and some three-quarters of a million tons of Austrian shipping was laid up in port. On the cessation of hostilities as many ships as possible were diverted to the carriage of food and raw materials, but there were still considerable numbers engaged in the repatriation of troops and the supply of the large armies which were still in the field. The position was further complicated by the urgent necessity for carrying out long-overdue repairs and reconditioning. Taken all round, the shortage of shipping during the period from November 1918 to May 1919 was as acute as it had been during the War, and the continuation of war-time stringencies called for the maintenance of the war-time machinery for the control and allocation of overseas supplies.

During the War the exigencies of the blockade of the Central Powers on the one hand, and the situation created by the German submarine attack on merchant shipping on the other, had brought into being by the spring of 1918 an elaborate Inter-Allied organization for the control of world trade. This organization was roughly comparable to a solar system in which bodies like the Inter-Allied Food Council, Munitions Council, and so forth, revolved about the sun of the Allied Maritime Transport Council. For, in the last resort, it had been the scarcity of tonnage which had governed the import programmes of the various Allied countries. In retrospect it is clear that in this machinery of war-time control the Allies had in 1919 an almost perfect instrument with which to undertake salvage of distressed Europe. Here, also, was the framework of a world economic organization unprecedented in the history of man. It was an organization which showed that with fear at their heels the sovereign states could co-operate to an extraordinary degree. But no sooner had this Allied organization for economic co-operation crushed and beaten its rival in Central Europe than it began to fall to pieces. The fear which had been its cement was

now gone. In each Allied country the conscript armies which had "won the War" demanded to be demobilized; the business men demanded the rapid removal of government restrictions and the release of private enterprise from its fetters. Shipowners were no exception to the rule, and in February 1919, the British, French and American Governments began to release their ships from requisition. By March the control of shipping, except for a limited amount of supervision maintained through the Ship Licensing Committee, had passed into private hands, and with it went the only really effective method of controlling and allocating food and raw materials according to the relative needs of the various countries.

Although it was not practical politics to retain the war-time controls in all their vigour for the purpose of salvaging Europe, a Supreme Council for Supply and Relief, consisting of two representatives each from the U.S.A., the United Kingdom, France and Belgium, and one representative of the Allied High Command, was constituted. The following month it was enlarged into the Supreme Economic Council, a body which was charged with much the same duties as the previous Inter-Allied organization, but, owing to the relaxation of state control of commerce and industry, shorn of most of its executive power. Its work was divided into different sections, such as Food and Relief, Finance, Communications, Shipping, etc., each administered by a Committee. The general principle which governed the activities of the Supreme Economic Council was that a distinction should be made between the distressed and defeated garrison of the Central European citadel which had for so long resisted the Allied attack, and the equally distressed inhabitants of Serbia, Rumania, Poland and the new Baltic states. The genuine ex-enemies were to be made to pay, the Allies and quondam-enemies were to be given relief. In practice the ex-enemy state of Austria was treated as if she belonged to the second category of beneficiaries.

To deal first with the question of Germany. Pending the conclusion of a final settlement at Paris the Armistice

was renewed from time to time. During this period the blockade of the Central Powers was retained as a precautionary measure, though its rigours were mitigated by arrangement. The supply of necessary provisions to Germany guaranteed by Article XXVI of the Armistice was governed in practice by considerations of shipping space and finance. As we have already remarked, three million tons of German shipping lay idle in port. The Allied Governments demanded that these ships should be handed over immediately to Allied management, and in return, under the Agreement of Trèves, January 1919, Germany was given permission to import 200,000 tons of bread-stuffs and 70,000 tons of pork products. A period of haggling ensued about the use to which the ships were to be put, the amount of hire to be paid, and it was not until March 1919 that an agreement was reached at Brussels whereby the ships were handed over in return for permission to import a further 370,000 tons of food-stuffs a month, the carriage of which was to be a first charge on the German ships. Owing to these delays, and to the difficulty of financing imports, the total food supplies received by Germany by September 1st, 1919, was less than half the permitted total.<sup>1</sup>

The question of making Germany pay raised several difficulties. As regards cash payment the sources open to her were two in number. By the Brussels agreement the Germans undertook to mobilize securities in Germany, but the result of this effort amounted to a very small sum; the other source was the Reichsbank gold reserve, which then amounted to £120,000,000. In this case the issue was complicated by the fact that the exchange of this gold for foodstuffs would clearly reduce the capacity of Germany to pay such War reparations as might eventually be fixed. On the other hand, it was—in the state of war passion prevailing in 1919—unthinkable that Germans (the Huns) should be *given* food. In the end the Germans paid approximately £52,500,000 to the United Kingdom and the United States for food.

As regards the rest of the distressed areas of Central

<sup>1</sup> *Seaborne Trade*, iii, 421-23.

Europe relief was free in emergencies. In other cases the recipients gave IOU's. Congress voted \$100,000,000 and the British Government gave £12,000,000 for free relief. Private organizations such as the Society of Friends and the "Feed the Children" movement did excellent work. It is estimated that 4,000,000 children were being fed in June 1919. As examples of what was done it may be mentioned that during 1919 the British quota of relief work included the following allocations:

To Poland:

£720,000 bread and grains.  
£60,000 pork.  
£144,000 clothing.  
£100,000 boots.  
£130,000 drugs and hospital materials.

To Serbia:

£300,000 bread and grains.  
£155,000 fats.  
£438,000 clothing.  
£500,000 drugs and hospital materials.

To Rumania:

£980,000 bread and grains.

It is a striking commentary on the disorganized state of Europe that Rumania, a wheat-exporting country, absorbed nearly £1,000,000 of grains. In round figures the cash value of relief distributed to Central and Eastern Europe amounted to about £65,000,000.

The Allies also made grants to various countries for the purchase of materials needed for the repair of communications. Through rail service between Paris and Constantinople was reopened in October 1919. By the summer of 1919 the harvest was coming in and the danger of famine was passing.

After the signing of the Treaty of Versailles and the withdrawal of the Americans from the Supreme Economic Council (August 1919) its headquarters were shifted from

## *Salvage Work*

Paris to London. There it gradually decayed and died, and by the end of 1919 there was hardly a trace left of this last heir to the throne of the great Inter-Allied economic organization which had once held supreme sway over the finance, commerce and transport of the greater part of the civilized world.

Its disappearance was inevitable but unfortunate. One can see in retrospect that problems much greater than salvage of war wreckage were to vex and perplex mankind. That, for reasons which will become apparent as we proceed with this study of *Our Own Times*, the basic problem was one of social reconstruction, a problem which fifteen years later, in 1934, a number of national states were trying to solve in semi-isolation.

### *3. Reconstruction*

It seems clear to us, emerging from the shadow of an economic crisis comparable in its confusions to the aftermath of the Great War, that great opportunities were missed at the end of 1918. As may be surmised from the foregoing pages, the programmes of long-term reconstruction which were contemplated by the victorious Allies at the end of the War vanished into the limbo of the "might have been." While the War was still in progress far-seeing men in all countries were busy drawing up comprehensive schemes of reconstruction. Ministries of Reconstruction, or their equivalent, were appointed in many countries, including our own.<sup>1</sup> Schemes were produced such as that of Lord Haldane's Committee on "Machinery of Government,"<sup>2</sup> which made suggestions for reorganization over the whole field of administration. But, with the coming of peace all these rough drafts of a Planned Society—with the notable exception of the League of Nations—were stuffed into pigeon-holes and were soon submerged in a spate of current business. The Allied Governments, in obedience to the reaction against

<sup>1</sup> See report on the work of the Ministry of Reconstruction, Cmd. 9231 of 1919.

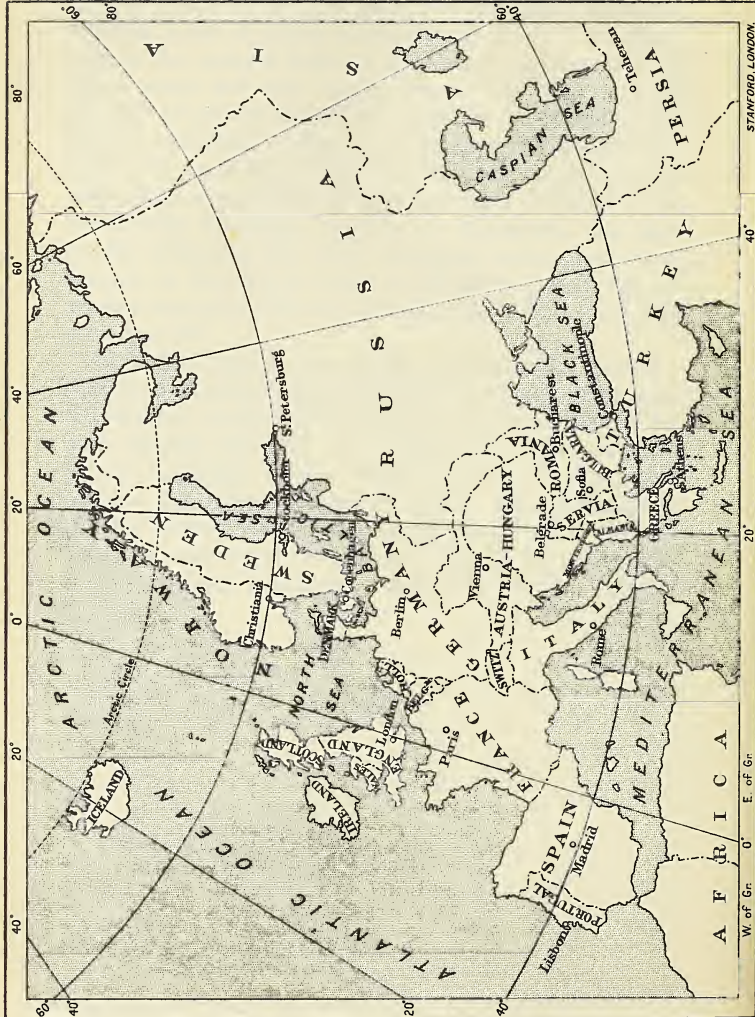
<sup>2</sup> See Cmd. 9230 of 1919.

War measures, rapidly evacuated most of the positions of control in economic life which they had seized from the faltering hands of private enterprise. In the U.S.A. where, true to the national habit of proceeding to extremes, the Government had very rapidly taken over large areas of the field of private enterprise as soon as the States entered the War, President Wilson promised Congress in December 1918 that he would abolish all war-time controls. It is interesting to reflect that fifteen years later America's next Democratic President, Franklin D. Roosevelt, was personally addressing the whole American nation (and many listeners in Europe) in order to tell them that in face of another emergency the state was about to assume control of economic life.

With the conspicuous exception of Russia, the "private" control of economic life resumed its dominant position in the Western world during the years 1919-20. About ten years elapsed, and then, as we shall see in this book, the private economic system, actuated by the profit-making motive, was obliged to confess in Great Britain, Germany and the United States, that it could not deliver the goods. Then the state began to reoccupy many of the strongholds in the economic system from which it had been expelled in 1920.



EUROPE IN 1914



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## CHAPTER IV

### THE PEACE TREATY

"It hath been said that an unjust peace is to be preferred before a just war."—SAMUEL BUTLER.

#### 1. *The Problem*

WHILST the victorious Allies were supervising the enforcement of the terms of the Armistice which had been signed at Compiègne on November 11th, and initiating the salvage measures which have been described in the last chapter, their plenipotentiaries were assembling at Paris to formulate the terms of a peace which it was hoped would lay the foundations of a new world order. The Peace Conference which opened at Paris on January 19th, 1919, marks a definite stage in the evolution of that eternal struggle between ideas of human co-operation and competition whose existence has been noted in Chapter I. It has been remarked in this book that though the nature of this struggle was always the same, its setting has been expanding throughout the course of history until by the beginning of the twentieth century it had reached universal dimensions. Until such inhabitants as there may be on the stars are brought into political and economic relationships with earth-men the setting has reached its optimum size. The 1914-18 War was the first true world war and its peace conference was the first world peace conference. On the battlefields, upon the seas and in the skies men had died seemingly for the cause of co-operation and for the establishment of an ordered world society, a cause which the Allies claimed as peculiarly their own, but one whose converse—the security of the particular national state—had seemed to the Central European peoples an adequate reason and explanation for their sacrifices.

In 1919 the Allies had triumphed and it remained to be seen to what extent they would be capable of using their victory in order to create in a practical form a system of world society in which respect for law should be supreme, and in which the relationships between states would be such an improved version of the 1914 state of affairs that there would be no danger of its collapse into anarchy.

The struggle between the spirits of self and selflessness; competition and co-operation; the short view and the long view; nationalism and internationalism soon became manifest round the council table of the peacemakers, and it is the business of this chapter to record the story of the brief but significant episode in the development of our theme which unfolded itself during six eventful months in Paris in the year 1919. It was an episode in which the defeated Powers took no part. Crushed and broken, they lay prostrate and anxious outside the Peace Conference whose deliberations were profoundly to affect the destinies of Germans and of all mankind.

Would the Peace Conference be conducted in the tradition of the pre-War world? Or would it break enough new ground to justify a claim that its conduct marked the beginning of a new era in the affairs of men?

Those were the momentous alternatives. The defeated Powers, having nothing to gain and everything to lose if the first was chosen, pinned their hopes to the second possibility and clung desperately to the principles of Wilson.

## *2. The Task*

In order to understand the circumstances in which the Allied and Associated Powers met at Paris to draw up terms of peace it is necessary to go at least as far back as January 8th, 1918, upon which date President Wilson, the Chief Executive of the United States of America, expounded his "fourteen points" in a speech to Congress. They represented his views as to the principles which should both govern the making and the preservation of international peace.

## *The Peace Treaty*

### *The Fourteen Points*

1. Open covenants of peace, openly arrived at, after which there shall be no private understandings of any kind, but diplomacy shall proceed always frankly and in the public view.
2. Absolute freedom of navigation upon the seas outside territorial waters alike in peace and in war.
3. The removal, as far as possible, of all economic barriers.
4. Adequate guarantees given and taken that national armaments will be reduced to the lowest point consistent with domestic safety.
5. A free, open-minded and absolutely impartial adjustment of colonial claims based upon a strict observance of the principle that in determining all such questions of sovereignty the interests of the population concerned must have equal weight with the equitable claims of the government whose title is to be determined.
6. The evacuation of all Russian territory. . . . Russia to be given unhampered and unembarrassed opportunity for the independent determination of her own political development and national policy! Russia to be welcome, and more than welcome in the League of Nations under institutions of her own choosing and to be given every form of assistance.
7. Belgium to be evacuated and restored.
8. France to be evacuated, the invaded portions restored and Alsace-Lorraine returned to her.
9. A readjustment of the frontiers of Italy should be effected along clearly recognizable lines of nationality.
10. The peoples of Austria, Hungary . . . to be accorded the freest opportunity for autonomous development.
11. Rumania, Serbia and Montenegro to be evacuated, occupied territories to be restored. Serbia to be given free access to the sea.

12. Turkish portions of Ottoman Empire to be assured a secure sovereignty. Subject nationalities to be assured security and absolutely unmolested opportunity of autonomous development. Freedom of the Straits to be guaranteed.
13. Independent Polish state to be erected which should include territories inhabited by indisputably Polish populations which should be assured a free and secure access to the sea.
14. A general association of nations to be formed under specific covenants for the purpose of affording neutral guarantees of political independence and territorial integrity to great and small states alike.

To these fourteen points were added the "Four Principles" (February 11th, 1918)—which elaborated the theme of "No annexations, no contributions, no punitive damages," the "Four Ends" (July 4th)—and the "Five Particulars" (September 27th, 1918) which laid further emphasis on the prohibition of secret treaties. These documents made up the Codex Wilsoniaticus of democracy. They were the result of years of academic study of political institutions and Wilson proclaimed them with the fervour of a hot-gospeller. He was—literally—to lay down his life in their defence.

On October 5th, 1918, Prince Max of Baden, then Chancellor of the German Reich, approached President Wilson officially with a view to the making of a peace based upon the famous Fourteen Points. The President replied that as a condition of negotiation "the military masters and monarchical autocrats of Germany" must be deposed. The German Government accepted these terms and the President placed the German proposals before the Allied Powers. The latter replied that with two qualifications they were willing to conclude a treaty with Germany on the basis of the Fourteen Points and subsequent declarations. Firstly, they made reservations on the question of the Freedom of the Seas, and secondly, the principle of "restoration" was extended to cover "all damage done

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to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea and from the air.”

The more or less whole-hearted acceptance by the Allies<sup>1</sup> of the Wilsonian principles as the basis of peace must have caused some anxious discussions among those Allied statesmen who remembered the existence of the Secret Treaties which had been signed in order to obtain Italy's entry into the War and Japan's permission for China's adherence to the cause of freedom.

On November 5th President Wilson informed the German Government that, subject to adequate military safeguards—which included the surrender of the German Fleet—the Allied and Associated Powers were prepared to conclude peace with Germany upon the terms suggested.

The Armistice was signed in the Forest of Compiègne at 5 a.m. on Monday, November 11th.<sup>2</sup>

During the interval of nine weeks which elapsed between the cessation of hostilities and the opening of the Peace Conference, President Wilson—against the advice of his friends—arrived in Europe in order to make a personal appearance at the birth of the new world. He made a triumphal progress through Paris, Rome and London in the course of which he was impressed with the extent to which the common man appeared to support the Wilsonian doctrines. So far as one can judge from personal recollection and a study of the contemporary Press, there were at that time solid grounds for Wilson's faith in the goodwill of the masses. But it was probably an emotional and transient manifestation, and both Europe and Wilson were to discover that public opinion on both sides of the Atlantic could emulate the chameleon in the rapidity of its changes.

<sup>1</sup> An acceptance emphatically qualified by Great Britain in regard to Point 2 (Freedom of the Seas) and by Italy as regards the application of the German terms to the negotiations with Austria-Hungary. Whilst in Paris, President Wilson explained that when the League of Nations had been established the vexed question of the Freedom of the Seas would not arise. But Wilson's representative, Col. House, gave the Allies an interpretation of the fourteen points which made them believe that they could be used for their own special war-aims.

<sup>2</sup> For a summary of its terms see Chapter II, p. 52.

Whilst Wilson was touring Europe he was the apostle of ideals which had been cherished by his people at the time of the sinking of the *Lusitania*. A year of war had altered the outlook of the average American who was beginning to feel that he had better take care not to become entangled with wicked and crafty European policies and politicians. If Wilson had chosen to pay more attention to "playing politics" in the U.S.A. and if he had given to Chicago and New York some of the time and energy he spent in Europe, it is possible that he might have been spared the experience of seeing the League of Nations he had fought so hard to create, refused recognition by the people whose views he was supposed to represent. Moreover, Wilson had fought the elections for Congress held in November 1918 on party lines, and the Republicans who won the election and secured control of Congress were to some extent forced into the position of automatically opposing Wilson's policies.

In Great Britain during these fateful weeks at the end of 1918 another world-famous figure was seizing upon the favourable circumstances of a nation intoxicated with victory in order to secure his domestic position, and so attend the Conference with a clear mandate from the country. The Coalition Government, of which Mr. Lloyd George was the leader, launched a "khaki election." The policy of the Coalition Government was outlined in a manifesto which described as "our first task," the conclusion "of a just and lasting peace" in order to establish "the foundations of a new Europe that occasion for further wars might be for ever averted." Other points in the manifesto were :

1. The provision of land for soldiers.
2. The promotion of scientific farming. "The War has given a fresh impetus to agriculture; this must not be allowed to expire."
3. "One of the first tasks of the Government will be to deal on broad and comprehensive lines with the housing of the people."

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4. "It will be the fundamental object of the Coalition to promote the unity and development of our Empire . . . and to bring into being such conditions of living for the inhabitants of the British Isles as will secure safety and opportunity to all.
5. "Security must be given against the unfair competition to which our industries may be subjected by the dumping of goods produced abroad and sold on our market below the actual cost of production.
6. "Active measures will be needed to secure employment for the workers of the country.
7. "Industry will rightly claim to be liberated at the earliest possible moment from Government control."

At the end of the electoral campaign *The Times* summed up the issues under three headings :

1. A War issue : "The outstanding feature of the campaign has been almost universal determination to ensure that Germany shall pay the cost of the War, that the Kaiser shall be brought to trial, and that no opportunity shall be afforded for any future peaceful penetration of this country."
2. A peace issue : "Almost as keen as the demand for a strong policy abroad has been the call for radical reform at home on the subjects of land, housing, health and conditions of labour."
3. A political issue : "As to whether the Government should be Coalition or Labour."

The Coalition gained an overwhelming victory. The figures were :

### *Coalition :*

Unionists	.	.	.	.	.	338
Liberals	.	.	.	.	.	136
National Democrats	.	.	.	.	.	10
Total						<hr/> 484

## Our Own Times

### *Non-Coalition :*

Labour	. . . . .	59
Unionists	. . . . .	48
Liberals	. . . . .	26
Sinn Feiners and Irish Nationalists	.	80
Independents	. . . . .	9
		<hr/>
Total	.	<u>222</u>
Coalition majority	.	262

Mr. Lloyd George went to Paris with his political position secure, but it was a security which had been obtained at the price of forging fetters for his own limbs, bonds which the most astounding feats of diplomatic contortions could not subsequently loosen. When Mr. Lloyd George, armed with the results of the 1918 General Election, went to Paris to fight his country's battles at the Peace Conference, his main purposes seem to have been to secure a peace based upon such an interpretation of Wilson's Fourteen Points as was consistent with the clamour of the British electorate, but above all to make peace quickly. Germany was starving; the neutral countries were in little better plight; the Allied countries were short of food and raw materials. Thousands of prisoners were languishing in concentration camps. Millions of men were clamouring to be demobilized. There were, in fact, two capacities in which the Peace Conference was called upon to act, it was an assembly for laying the foundations of a new World Order, but it was also the supreme executive of a starving and chaotic Europe. The Allied and Associated Powers were operating or controlling the movements of a very large proportion of the world's shipping. This control of shipping was the key to the control of the world's supplies of food, raw materials, and manufactured goods. Until world trade could be released from its war-time shackles, starving Europe could not be fed or clothed.<sup>1</sup> Until the masses were fed and clothed they could not be expected to

<sup>1</sup> This subject has been dealt with more fully in Chapter III, "Salvage Work."

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take dispassionate views upon such momentous questions as the maintenance of world peace. High principles go ill with an empty stomach.

The policy of France as represented by M. Clemenceau is as easy to define as it has proved difficult to achieve. M. Georges Clemenceau had seen Paris in the glare of the fires of the Commune in 1871. He remembered the Peace of Frankfurt when William I of Prussia, subsequently the first Emperor of Germany, with Bismarck at his side, had signed a treaty which transferred the provinces of Alsace and Lorraine to Germany and had extorted a war indemnity which had drained the economic life-blood of a generation of Frenchmen. On behalf of France, Clemenceau demanded the return of Alsace-Lorraine, an indemnity which would pay for the reconstruction of the devastated war areas and a guarantee that Germany should be placed and kept in such position that she would never again offer any menace to the security of her weaker neighbour. France, in short, visualized a German Samson bound by stout chains to the pillars of a Temple of Peace. She did not realize that in the course of time either those fetters must be loosened, or that the struggles of a reviving and manacled giant would bring the temple crashing to the ground.

Italy, represented at the Peace Conference by Signor Orlando, pursued the line of policy which had brought her into the War on the side of the Allies. It was a policy of carefully timed intervention in an international dispute on the side and in the manner most likely to secure territorial acquisitions to the young Italian state. At the outbreak of War Italy was a member of the Triple Alliance, the partner of Germany and Austria-Hungary. With her miles of defenceless seaboard, intervention on the side opposed to Great Britain was practically out of the question. Italy, however, continued to toy with the project of implementing her understanding with the Central Powers until she could secure from the Allies sufficiently favourable terms to induce her to add her weight to the support of their cause. She secured these terms by the Secret Treaty of London of April 1915. By the terms of this agreement

she was promised, in return for a declaration of war on Austria and Germany, the Trentino and the whole of the Southern Tyrol as far as the Brenner Pass; certain territories and islands on the eastern shores of the Adriatic, notably Trieste (but not Fiume); Northern Dalmatia and most of the Dalmatian Islands; the Albanian town and naval base of Valona; Rhodes and other islands with a purely Greek population; certain concessions in the event of the partition of Turkey, and "equitable compensation" in the event of France and Great Britain extending their colonial possessions at the expense of Germany. If put into full execution this treaty would have transferred to Italian sovereignty 229,261 Austrians, 1,528,958 Jugoslavs and a number of Greeks. Thus Italy's demands at the Peace Conference—demands actuated by a desire to secure the Alps as a strategic frontier, and to regain the greater part of the dominions of mediæval Venice—cut clear across the doctrine of "self-determination" as expounded by President Wilson and accepted in principle by Mr. Lloyd George.

Of the other Powers, Japan demanded the German Pacific Islands north of the Equator and all German rights in Kiao Chau and in the Chinese province of Shantung. These demands were in accordance with a treaty signed between Japan and Great Britain and France in February 1917. This treaty embodied the price Japan had exacted in return for "allowing" China to enter the War. Japan also pressed the question of embodying the principles of racial equality in the constitution of the projected League of Nations—a demand likely to receive scant consideration from the United States and the British Dominions in view of the very decided attitude of these states to the colour question.

The Arabs, who, under the leadership of the Emir Feisal, assisted by Colonel Lawrence, had rendered valuable assistance to the British army in Palestine, had reason to anticipate British support in a claim to found an Arab empire with its capital at Damascus. This claim was bound to be hotly contested by the French who cherished schemes of a sphere of influence in Syria. The situation in this part

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of the world was complicated by the undertaking given to Jewry by Great Britain in 1917 when, in the Balfour Declaration, His Majesty's Government stated that it viewed "with favour the establishment in Palestine of a National Home for the Jewish people, and will use its best endeavours to facilitate the achievement of this object." The declaration also contained an undertaking to safeguard the rights of the non-Jewish communities in Palestine.

Then there were the claims of greater Serbia and Rumania; and those of the liberated states of Poland and Czechoslovakia. These states, which arose from the wreckage of the Austro-Hungarian Empire, put forward claims for territorial aggrandisement which were incompatible with the existing commitments of the Allies on the one hand and with the economic necessities of the regions concerned on the other.

Russia, by the conclusion of a separate peace at Brest-Litovsk in March 1918, had relieved the Allies of the necessity of implementing their secret pledge to hand over Constantinople to a dynasty which had for centuries longed to revive the glories of the Byzantine Empire. Rumania, by her forced defection from the ranks of the Allies in December 1917, had given at any rate a pretext for getting rid of an obligation to grant to Rumania, Transylvania and the whole of the Banat of Temesvar.<sup>1</sup> Amongst the British Empire group, Australia demanded the German possessions south of the Equator in the Pacific; the Union of South Africa put in a claim for German South-West Africa.

There are notable omissions in this list of countries with an axe to grind at the Conference at Paris. Were Germany and Austria, Hungary, Bulgaria and Turkey to have no say whatever in the matter? At previous peace conferences the vanquished Powers at least put in an appearance at the council board. At the outset, at any rate, there seems to have been a division of opinion as to the status of the defeated Powers. There was considerable support for the

<sup>1</sup> Claims established by secret treaties between Rumania and the chief Allies in August 1916.

view that the Conference at Paris was to be a preliminary meeting at which the victorious Allies should settle amongst themselves the terms to be negotiated with the enemy Powers at a subsequent Peace Congress. It was with this idea vaguely in mind that some of the terms of the treaty, especially the economic and financial clauses, appear to have been drafted. It has been said that these clauses, drafted as a basis of negotiation, were in consequence made more drastic than they would have been had it been clearly understood from the outset that the settlement which was in course of preparation was intended to be a final one. Be that as it may, it very soon became clear that the peace upon which the foundations of a new world order were to be based was to be a Carthaginian peace, imposed without discussion or negotiation by the victors upon the vanquished. In point of fact, it was not until the treaty was ready for signature that the German representatives were summoned to Versailles to put their names to the sentence of the court.

One may summarize the problems which faced the statesmen at Paris by classifying them into four groups :

First of all there was the fundamental divergence of opinion between President Wilson and the European Allies as to the nature of the proposed settlement. A difference of opinion in which Great Britain occupied a midway position.

Secondly, there were the conflicting views of the Allies and the Succession States, as to the rightful division of the spoils—if any.

Thirdly, and as quite a subsidiary issue, came the question of securing the consent, or at any rate the acquiescence, of the vanquished Powers.

Finally, there was the increasingly urgent problem of arranging some sort of settlement of Europe whilst there was still any Europe left to settle, and in this connection it must be borne in mind that the Peace Conference was carried on under a sky which was lit with the red fires of Bolshevism. It was felt that the disbandment of the Allied forces might leave the Bolsheviks with the largest armed force in Europe. The "Red Menace"—still in its violent

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crusading stage—was raising its head not only in Hungary, but in Rumania, Italy and also the Netherlands and Switzerland. Even in Great Britain thousands of men fretting at demobilization delays, their irritation breaking out occasionally into serious rioting, were considered as potential raw material for a communist upheaval. The policy of fighting Bolshevism with food could not be carried on indefinitely. The great need was a speedy peace settlement as a preliminary to a return to "normalcy." It must be remembered that the statesmen at the Peace Conference had to govern a distracted Europe whilst they planned a New Europe and that as much and perhaps more time was spent in the former than upon the latter task.

### *3. Conference*

On January 18th the curtain rose upon the greatest Peace Conference the world had ever seen.<sup>1</sup> The last congress in any way comparable to it, either in the magnitude of the issues concerned or the number of countries represented, was the Congress of Vienna held in 1814 to end the Napoleonic Wars.

At the Congress of Vienna negotiations were carried on by the discreet candlelight of diplomatic usage. At the Paris Conference they were conducted in the glare of countless badly focused searchlights. Paris was swarming with the Press representatives of every country, who were in fact only admitted to the rare Plenary Sessions of the Conference. A good deal of information leaked through, and when facts were few, imagination came to the rescue.

At Vienna in 1814 the diplomats were comparatively few in number; Lord Castlereagh and fourteen secretaries constituted the entire British delegation. Magnificently attired gentlemen, swords at their sides, conducted "significant *pourparlers*" in ante-rooms to the distant strains of a harpsichord.

In Paris, 1919, there were seventy plenipotentiaries.

<sup>1</sup> Membership of the Conference was accorded to thirty-two Powers. The British Dominions were full members.

mostly in felt hats and armed with nothing more romantic than fountain-pens. There were 1037 delegates, who settled in national swarms upon a hotel or, in the case of the Great Powers, on four or five hotels; an army of stenographers, short-skirted (1919) and efficient, but whose fingers were accustomed to the keys of a typewriter rather than those of a harpsichord. As regards the conduct of the business of the Conference it was soon found that plenary sessions were far too cumbersome a method of transacting business. From start to finish of the Conference only six such sessions were held, and apart from the first two these were only summoned in order to ratify decisions reached by a body nicknamed "The Big Four." This body of supermen (M. Clemenceau, President Wilson, Mr. Lloyd George and Signor Orlando) evolved, for reasons which will shortly be mentioned, from a Council of Ten which was a first attempt to reduce the Tower of Babel to manageable proportions. As the business of peace-making proceeded it was the Council of Four which reached decisions on all matters of major importance. The detailed investigation of particular problems was carried out by some sixty inter-Allied committees who, in their turn, were assisted by a large body of experts.

Much has been written of the shortcomings of these committees and their attendant experts. It has been maintained, amongst other things, that they were insufficiently informed. The truth would seem to be rather that they were suffering from a surfeit of information. A prodigious amount of knowledge had been amassed by the American delegation; the British delegation was extremely accurately primed, and the French had prepared schemes which, if not so copiously documented, were models of logical precision.

From January 19th, 1919 to June 28th of the same year the negotiations continued. Chronologically the peace-making falls into three phases. Phase I lasted from January 18th to the middle of March and was the period of the Council of Ten. Phase II lasted from March 24th to May 7th and was the period of the Council of Four, sometimes reduced to Three. The third phase was from May 7th

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to June 28th and was the period during which the victors interchanged notes with the vanquished Germans. Finally, there was a sequel which lasted into 1920 or even up to 1923 in the case of Turkey. This was the time during which peace treaties were concluded between the Allies and the lesser ex-enemies, Austria, Hungary, Bulgaria and Turkey.

During the first phase of the Peace Conference the plenipotentiaries of all countries, great and small, were playing for position, seeking to obtain support for their respective objectives from one or other of the Great Powers in return for promises to group themselves under the British, French or American standard when the battle should be joined on the major issues. It was a period of intrigue and log-rolling during which very little progress was made with the real business of the Conference, the drafting of the peace terms with Germany. A certain amount of progress, however, was made in clearing the ground of some questions which, while intrinsically of the greatest importance, were irrelevant to the main issues. The most delicate of such questions was that of the attitude of the Allies towards Russia, a question which may be said to have been shelved, rather than satisfactorily settled. Two apparently contradictory policies were simultaneously pursued. In their capacity of builders of a permanent settlement of Europe the Council of Ten felt it incumbent upon them to endeavour to include their late Ally in any scheme for a new world order. Abortive attempts were made to call a conference of all Russian parties at the Island of Prinkipo in the Sea of Marmora, with the view to the establishment of some democratically elected government with which the Allies could negotiate. Other schemes of a similar nature were represented by the Mission of the American, Mr. Bullitt, to the Soviet Government and the Nansen scheme for the provisioning of the famine-stricken land. On the other hand, in its capacity of temporary executive of a chaotic Europe, the Supreme War Council—which was composed largely of the same personnel as the Council of Ten—was supplying munitions and a

considerable moral support to the anti-Soviet armies under the leadership of Denikin and Koltchak. Both these policies, even if they had not been mutually contradictory, were condemned by public opinion in the principal Allied countries. Any attempt to negotiate with the Bolsheviki met with almost universal execration and the policy of intervention on the side of the anti-Bolshevik parties, which, to be made effective demanded the co-operation of Allied troops, as well as the supply of munitions, was rendered nugatory by the persistent demands for demobilization and a speedy return to peace-time conditions.

Amongst the other questions which were dealt with during the first phase of the Conference were those of the disposal of the German colonies and the preparation of the first draft of the Covenant of the League. The mandate principle, which owed its conception to the fertile genius of General Smuts, was recognized as the basis on which the colonial problem could be brought into line with the Fourteen Points in a manner calculated to satisfy the Imperial ambitions of France and Great Britain.

President Wilson succeeded during these months in securing the inclusion of the Covenant of the League among the terms of any treaty proposals which might subsequently be elaborated. In this policy he obtained the very ready backing of the smaller Powers, who regarded it not only as an insurance measure for their future security, but as a means by which they could claim American help when their ambitions were discussed at the Conference. Thanks to Wilson's dogged persistence the discussion on this question had culminated in the production of the first draft of the League Covenant for the consideration of the Third Plenary Session on February 14th. The last two weeks of March form a sort of interlude between Phase I and Phase II of the Conference. They saw the return of Mr. Lloyd George to England to attend to business arising out of the industrial situation and to reply to criticism in the new House of Commons, especially with regard to the abortive negotiations with the Bolsheviki. They also witnessed the return of President Wilson to the United

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States, where he met with a frigid reception from a hostile Senate. A striking contrast can be drawn between the animated criticism of detail which greeted Mr. Lloyd George from a pugnacious, but overwhelmingly loyal House of Commons, and the ominous non-co-operation on matters of principle which was patent even to Wilson on his return to the United States. During this interlude Mr. Balfour dominated the scene in Paris, and under his hand there was a general speeding up of the work of the territorial Commissions, who were given a time limit for the presentation of their reports. Nevertheless when Mr. Lloyd George returned on March 5th, fresh from his encounter with the impatience of public opinion at home, and deeply impressed by a telegram from Lord Plumer as to the discontent amongst the army of occupation caused by the sight of the suffering of the German civil population, he proposed a radical alteration in the methods of procedure. The Council of Ten (which was usually swollen by the attendance of experts to a Council of Fifty with consequent leakages of information) was superseded by the Council of Four, consisting of M. Clemenceau, President Wilson, Mr. Lloyd George, Signor Orlando. Linguistic difficulties limited the sphere of the Italian representative to matters in which Italy was intimately concerned, and so in practice the main issues of the Conference were now left to discussion between Wilson, Clemenceau and Lloyd George, with Sir Maurice Hankey acting as secretary.

Phase II, sardonically termed by Mr. Winston Churchill "the period of Exodus," saw the Big Three getting down to hard tacks. Profound divergences of policy emerged, such as Wilson's attitude to the Secret Treaties and Clemenceau's demand for the Rhine frontier. At one time or another each of the plenipotentiaries was on the verge of withdrawing in exasperation. On April 6th Wilson actually telegraphed for his ship, the *George Washington*.<sup>1</sup> That he changed his mind was due to the feeling that without his presence the unregenerate politicians of Europe

<sup>1</sup> It seems doubtful whether this was in fact more than a routine matter. It has developed into one of the Legends of the Peace Conference.

would evolve an even worse treaty than that under discussion. Clemenceau's participation in the proceedings after the demand for the Rhine frontier had been refused was secured only through an undertaking by Wilson and Lloyd George to recommend to their respective countries the conclusion of a treaty guaranteeing France against German attack. Lloyd George's rather lukewarm support of the British demand for the inclusion of war pensions and allowances in the reparation clauses was reinforced by a telegram he received on April 8th signed by three hundred Members of Parliament, insisting that he should fulfil his election pledges in full. At one time he also, exasperated by the delays and by opposition to the British demands as to war costs, threatened to return to London, where his presence was urgently needed. Finally, when President Wilson made it clear on April 23rd that he would not agree to the Italian claim to add Fiume to their spoils, Signor Orlando made a dramatic exit from the Conference. His departure enabled the Big Three to make rapid progress with the Draft Treaty, and it was not until it was ready for submission to the Secret Session of the Plenary Conference and the Italians were informed that if they did not return it would be signed without them, that Orlando made a hurried and undignified return to Paris. On May 6th the Draft Treaty received the approval of the Plenary Session, but not before the lesser Powers—including the Dominions—had protested at the lack of fulfilment of their claims.

The events of the first two phases of the peace-making can be summarized by imagining a picture of a diplomatic shuttle passing to and fro as it weaves a web in which the conflicting ambitions of the European Powers were the weft threading in and out of the woof of Wilson's Fourteen Points. The shuttle was sometimes clumsily handled; its point was coarse; the weft coagulated into tiresome lumps, and many strands of the woof were lacerated and torn and, in some cases, parted altogether. Many of the Fourteen Points were either directly contravened—as in the case of Wilson's surrender over the question of conceding

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the Brenner frontier to Italy. In other cases they were diplomatically ignored or so covered with a coating of reservation and emendation that they became a dead letter. The covenant of peace was not openly arrived at; the Freedom of the Seas was not secured; agreements were reached which were to cause tariff barriers to be multiplied in number and increased in height; the fourteenth point, the inclusion of the Covenant of the League in the Peace Treaty, was the one objective to which Wilson, failing in health, uncertain of support at home, bewildered by the manœuvres of professional diplomats, clung with the obstinacy born of despair.<sup>1</sup> On the other side it must be said that if the Covenant of Peace was not openly arrived at it was not marred by secret treaties, and that the creation of the New Poland was in accordance with the Fourteen Points. As the basis of a world settlement the Peace Treaty at best could be a patchy compromise—at worst an utter failure. All the more necessary, maintained Wilson, that it should enshrine at least one section which would provide a foundation for a better world in the time to come. Subsequent events have made it doubtful whether even on this point his line of argument was correct. It is arguable that the League, the one hope of a war-weary world, might have been born under a more propitious star if it had been entirely disassociated from the storms of controversy surrounding the Treaty of Versailles.

### *4. Victors and Vanquished*

Proposals for the oral discussions of the Treaty with the German delegation were dropped owing to the vehement opposition of Clemenceau, who also vetoed any suggestion that Germany should be admitted to the League of Nations as soon as the Treaty was signed.

The Allied terms were received by the Germans with indignation and surprise. The Provisional Government at Weimar, distracted by Spartacist outbreaks at home, had anticipated a treaty in strict accordance with Wilsonian

<sup>1</sup> See *Peace Making*, by Harold Nicolson.

principles. The actual proposals, especially in their economic aspect, together with the omission of Germany as a member of the League—the only channel through which eventual revision might be effected—filled them with utter consternation. What would be the fate of the new Republic whose birth certificate was disfigured with an admission of full responsibility for the World War?

It was on May 7th that the Draft Treaty was handed to the Germans at the Trianon. The head of the delegation of the defeated Power received the document without rising to his feet and treated the Allies to a bitter criticism of their slowness in drawing up the Treaty and of their cruelty in maintaining the blockade in being during the peace discussions. He ended with the words: "We are under no delusions as to the extent of our defeat and the degree of our helplessness . . . we know the power of the hatred that we encounter here." The Germans were given twenty-two days in which to make any observations upon the Treaty. With feverish haste they set to work to denounce its provisions, more as a means of putting their case before world public opinion than with much hope of obtaining substantial concessions. The German reply alleged that the whole Treaty was a violation of the Wilsonian conditions upon which Germany had negotiated for an armistice. They made a counter-offer of reparations; they protested passionately against the cession of Upper Silesia; they demanded a plebiscite in Alsace-Lorraine and that Germany's ownership of colonies should be a matter for arbitration; they asked to be admitted to the League and proposed that within two years the Allies should disarm. Such were some of the chief points in the German reply.

For a few days from the end of May to June 13th, there was a movement in the Allied camp towards revision, a movement in which Lloyd George was prominent, but it was too late and the Allied reply on June 16th conceded a stone in response to the German demand for bread. The principal concessions made were modifications with regard to the ultimate fate of the Saar Valley, the rate of reduction of the German army, the holding of a plebiscite in Upper

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Silesia, and the method to be adopted for the assessment of reparations.

The revised terms were submitted by Count Brockdorff-Rantzau to his Government, but four days later the Scheidemann Cabinet fell, and the new government authorized its plenipotentiary, Herr Bauer, to sign the Treaty on behalf of the German Reich. As a final burst of protest the interned German fleet, condemned to be handed over to the Allies, was scuttled by its crews at Scapa Flow on June 21st. The final scene took place on June 28th, when, in the same Galerie des Glaces which had witnessed in 1871 the birth of the German Empire, the black-coated representatives of the German Republic put their signatures to a document which in effect was a repudiation of the whole policy of Germany for the past half-century.

It was not without significance to those who seek to view the affairs of men in proper perspective, that of all the Powers whose representatives were assembled in the same great gallery of the Palace of Versailles in which the King of Prussia had accepted the Imperial office in 1871, the only delegates who did not sign the Treaty were those from China. The representatives of the oldest civilization on earth, whose entry into the War had been brought about by the singular process of two Allies promising to a third Ally concessions at the expense of the Ally-designate, disgusted by the outcome of the Shantung question and the fact that Wilson, in order to keep Japanese support for the League, had felt obliged to abandon China to the mercy of Japan, refused to sign the Treaty of Versailles. Concurrently with the Treaty of Versailles a treaty was signed between Great Britain and the U.S.A. on the one part, and France on the other, guaranteeing to defend France against unprovoked aggression. The prospect of this insurance policy against the dangers of German revenge was chiefly responsible for Clemenceau's abandonment of the French demand for the Rhine as a frontier; a claim ardently pressed by Marshal Foch. The Treaty of Assistance was ratified by the British House of Commons (November 20th, 1919) subject to ratification by the American Senate. This latter event never took place and

so the Treaty was still-born. Frenchmen have always regarded this event as the *ne plus ultra* of Anglo-Saxon perfidy.

### 5. *The Treaty of Versailles*

The Treaty is a long document divided into fifteen parts and four hundred and thirty-nine articles. It makes up into two hundred and forty pages of small print, or an average sized book, and touches upon matters so great as the Covenant of the League (Part I); so curious as the "public arraignment" of William II of Hohenzollern, formerly German Emperor, for a supreme offence against international morality and the sanctity of treaties (Article 227); so insignificant as the return to the British Government by Germany of "the skull of the Sultan Mkwawa" which was removed from the protectorate of German East Africa (Article 236). The gist of the Treaty is shown in the following summary:

#### (a) *Future Peace.*

- (1) The Covenant of the League was Part I of the Treaty.
- (2) The arrangements for the setting up of the International Labour Organization were included as Part 13 of the Treaty.

#### (b) *Changes of Frontiers.*<sup>1</sup>

- (1) Germany was to return the provinces of Alsace and Lorraine to France.
- (2) Subject to plebiscites, Germany surrendered approx. 400 square miles to Belgium.
- (3) Subject to plebiscites, Germany surrendered approx. 1500 square miles to Denmark.
- (4) Germany surrendered 17,800 square miles to Poland, including a strip of land leading from Poland to the Baltic Sea.<sup>2</sup> The city of Dantzic to be taken from Germany and made independent under the guardianship of the League.

<sup>1</sup> Through changes of frontiers the German State lost about 6 million citizens and approximately 26,000 sq. miles of territory.

<sup>2</sup> This is the Polish corridor which separates East Prussia from the rest of Germany. The Fourteen Points had specified "access to the Sea."

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- (5) Germany surrendered all her colonies and her special rights in China, Egypt and Morocco.<sup>1</sup>

(c) *Responsibility for the War.*

- (1) "Germany accepts responsibility for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the War imposed upon them by the aggression of Germany and her Allies." (Article 231 of the Treaty).<sup>2</sup>

(d) *Cost of the War (Reparations).*

- (1) Germany to pay for all damage done to Allied civilians.
- (2) An Allied Committee called the Reparations Commission to decide how much Germany should pay as damages for the War.
- (3) Germany to pay £1,000,000,000 on account between 1919 and 1921.
- (4) Germany to surrender her submarine telegraph cables.
- (5) Germany to surrender all her merchant ships over 1600 tons to the Allies.
- (6) Germany to build merchant ships to the order of the Allies.
- (7) Germany to give heads of cattle to France and Belgium,<sup>3</sup> and seven million tons of coal a year and eight million tons of coal a year for ten years to France and Belgium respectively. Also six million tons of coal a year for ten years to Italy.

<sup>1</sup> The German colonies in Africa and the Pacific were divided amongst the British Empire, France and Japan (who took the German islands in the Pacific north of the equator). The colonies were declared to be Mandates, which meant that their new owners were suffered to rule them on behalf of the League until such time as the peoples of these lands were able to rule themselves. See Article 22 of the League Covenant.

<sup>2</sup> This is the War Guilt Clause to which all Germans have always objected. She had accepted a similar phrase in the Armistice negotiations.

<sup>3</sup> To France, 30,000 horses, 100,000 sheep, 90,000 cows, etc. To Belgium, 10,000 horses, 50,000 cows, etc.

- (8) Germany to pay the costs of the Allied armies of occupation.
- (9) Germany to give France the coal mines in the Saar.

(e) *Disarmament.*

- <sup>1</sup> (1) Germany to abolish conscription and reduce her army to 100,000 men with no big guns or tanks or general staff.
- (2) Germany to have no air force.
- <sup>2</sup> (3) The German Navy to be reduced to six battleships of 10,000 tons, six cruisers, twelve destroyers and twelve torpedo boats, no submarines.
- (4) Germany to build no fortifications on either side of the Rhine River, and Allied armies to occupy German territory west of the Rhine for fifteen years.
- (5) German disarmament to be supervised by Allied commissions.
- (6) Germany to be forbidden to unite into one state with Austria.

The treaty with Germany served as a model upon which the subsequent treaties with Austria, Hungary and Bulgaria were based in all respects, save that of territorial readjustments.<sup>3</sup>

<sup>1</sup> It is an ironic illustration of the shortness of human vision in matters political and economic that within fifteen years a chief anxiety of France and Great Britain was to be that of inducing Germany to abandon her "rights" under this part of the Treaty, and "disarm" by adopting the short service type of army forbidden to Germany in 1919 on the ground that this would keep her militarily weak.

<sup>2</sup> The Section of the Peace Treaty dealing with German disarmament was prefaced by a statement which ran as follows: "*In order to render possible the initiation of a general limitation of the armaments of all nations Germany undertakes strictly to observe the military, naval and air clauses which follow.*"

<sup>3</sup> After the signing of the German Treaty the Big Four returned to their respective countries on June 28th, having previously laid down the principles upon which the supplementary treaties were to be moulded. The work of completing these treaties devolved upon the Council of Five, consisting of the foreign ministers of France, Great Britain, the U.S.A. and Italy, under the chairmanship of M. Clemenceau. This council acted as the Supreme Council of the Allies until January 1920, when it was succeeded by the Conference of Ambassadors.

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### *6. The Subsidiary Treaties*

The treaty with Austria was signed at St. Germain on September 10th, 1919. Its general provisions for disarmament and so on were modelled on the treaty with Germany. Union with Germany was forbidden; a strange interpretation of the doctrine of self-determination! The territorial provisions of the Treaty set the final seal on the break-up of the Hapsburg Empire. Vienna, from being the capital of an empire and one of the most important cultural centres of Europe, was reduced to the rank of the principal city of a small Austrian state with an area of 32,000 square miles and a population of less than seven million. Shorn of its financial resources and deprived of its Hungarian granaries, the economic condition of the new Austria was to prove, as will be shown in a later chapter, one of the most urgent of post-War problems.

The Treaty of Trianon with Hungary was not signed owing to internal strife in that country—until June 4th, 1920, and was ratified in July 1921. In March 1919, revolution had broken out in Hungary under the leadership of the Jewish Bolshevik, Bela Kun who attacked first the Czecks and later the Rumanians. It was not till Hungary had been blockaded by the Allies and occupied—much to the embarrassment of the Supreme Council—by Rumanian troops, that order was restored and a government set up in Budapest with whom it was possible to negotiate a final settlement. Through the Treaty of Trianon Hungary ceded large portions of territory<sup>1</sup> to the Succession States and to Rumania and became, like Austria, a shadow of her former self.

The settlement with Bulgaria, which had been the first of the enemy Powers to sign an armistice in September 1918, was signed at Neuilly (the names of these treaties form a list of the old royal palaces of France) on November 27th, 1919. Bulgaria suffered very small losses of territory, if the matter be regarded simply as one of area, but the readjustments of her frontiers were such as to deprive her

<sup>1</sup> Much of which was inhabited by non-Magyars.

of her former strategic stranglehold upon Balkan lines of communication.

The case of Turkey was peculiar, for though she had suffered the most complete defeat, out of her weakness came strength. Various causes, of which Inter-Allied jealousies were the chief, postponed the day of reckoning between the Allies and the shorn Ottoman Empire until 1923. How at this latter date the bickering Allies found themselves confronted across the conference table at Lausanne by a rejuvenated Turkey inspired and ruled by the Gazi Mustafa Kemal, and how Lord Curzon, the proud English Secretary of State for Foreign Affairs, hampered at every turn by French intrigue, saw his bluff called is a story which must await a later chapter.

The settlements made with regard to the Succession States had one feature in common, a feature which applies to certain of the Allied states, notably Italy and Rumania. This was the problem of safeguarding the interests of minority populations. This question is dealt with in Chapter VI.

The German Peace Treaty whose birth pangs have been described in this chapter is a document which has been subjected to much criticism—much of it unjustified. It was a document which reflected the spirit and temper of the times. On the one hand its penal clauses indicate the determination of the Allies to extort the fruits of victory from their defeated foes; on the other, the inclusion of the League Covenant reflected the existence of a strong feeling that a determined effort must be made to build up a system of collective security and international co-operation. Of the Treaty as a whole—and this remark applies with equal force to the subsidiary Treaties—it may be said that peace had to be made and this was the best that could be done in 1919 by statesmen subject to the control of democratically elected parliaments. Informed and far-seeing opinion—perhaps French statesmen should be excluded from this category—realized that the real work of peace-making had yet to be achieved. The South African delegates (Botha and Smuts) expressed this view in public.

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General Smuts went so far as to say that he had only signed the Treaty because not until that event has occurred "will the real work of peace-making begin." Finally, if the state of affairs in 1934 be examined in the light of the Treaty of 1919, it will be found that the Peace Treaty has been and is being revised. The Kaiser has not been tried; Reparations have only been paid in part, and of that part much was borrowed money; Germany is rearming. Slowly but surely, sections of the Peace Treaty have behaved like old soldiers. They never die; they merely fade away.

## SAILING DIRECTIONS—I

*Being a Guide to Navigation amongst the Reefs and Shoals  
of this Survey of Our Own Times*

THE first chapter of this book described the origins and nature of the great society which disintegrated into the World War as a consequence of its inability to co-ordinate on a universal scale political competition between sovereign states and economic co-operation between individuals in all parts of the world. Then came a chapter touching upon the War and the next chapters described salvage work in the post-Armistice period and the creation of the Peace Treaty.

That event marked the end of the first phase in the story of Our Own Times—a period which came to an end in 1919.

The old world had been in part destroyed and the charter of the new world, a charter sealed by the sacrifices of millions of War victims, lay upon the table. How were its contradictory provisions to be interpreted? How applied? Who were to be the architects in charge of reconstruction?

These were typical of the questions which confronted men at the end of 1919.

As will be seen in Chapters V to XIII, it was a period which might well be called "The War after the War." It was not—in comparison with the period 1914-19—a time of physical war, though bloodshed was not absent; it was a time of a war of ideas; a conflict of interpretations. It was a clash in Europe between those who believed that the League section of the Treaty should dominate reconstruction, and those who believed that the Wilsonian conceptions should be subordinate to those parts of the Treaty which showed the influence of that implacable realist, M. Clemenceau. This period ended in what seemed at

the time to be a peace settlement markedly in favour of the co-operative and League ideal. But, as will be shown, it was an armistice, not a settlement. We shall first examine the relationships between France, Germany and Great Britain, because it was in this infernal triangle that the war-after-the-war raged most fiercely. The U.S.A. was trying hard to ignore European affairs during this period, and the course of events in Europe was determined in Paris, London and Berlin. Having taken the story of this triangular duel up to the years 1925-26 we shall then consider the course of events in the remaining parts of the European continent. Amongst these will be found certain special and unique phenomena such as the beginnings of the Russian and Italian experiments of Communism and Fascism, and the peculiar incident of Turkey. These three episodes will be treated separately. Moving outwards from Europe we shall then describe the course of events in the world across the seas. We shall give some account of the foreign policies of the U.S.A., and of the evidence which hinted at the fact that whilst Europe struggled to recover from the fate of having been the battlefield of a world war the Pacific area was showing signs of becoming the arena of another great conflict. We shall then investigate the progress of the evolution of that remarkable and unique political experiment known as the British Commonwealth of Nations, an evolution profoundly influenced by the Great War in which the members of the Empire had played important parts.

All this accomplished, we shall find that at the end of the period now to be reviewed there is a coming together of consequences; a sense of achievement; an impression of climax.

It will then be prudent to write down a second set of *Sailing Directions* upon which to set our course before embarking upon the hazardous passage to be covered in the later part of this volume, in which economic issues assert themselves viciously and violently in the form of a world economic crisis which bore fruit in the shape of the Great Slump.

## CHAPTER V

### THE INFERNAL TRIANGLE

“Peace, Peace where there is no Peace.”—Jeremiah vi. 14.

“Now half appear’d  
the tawny lion, pawing to get free  
His hinder parts.” MILTON, *Paradise Lost*.

#### 1. *The Clash of Policies*

IT was 1920. The Treaty of Versailles was in force; victorious Allied armies were marching through the beflagged streets of their capital cities; grateful parliaments were voting substantial sums to generals and admirals who had not given themselves away or been given away in memoirs; the Allied armies of occupation were settling down into their quarters on the Rhine; business men were revelling in the relaxation of war-time controls; amateur soldiers were demanding, sometimes in a mutinous manner, that they be demobilized; Central Europe was in economic and political chaos; the Succession States were struggling to crystallize; Russia was in the grip of the Bolshevik, and across the Atlantic the United States was drawing in her skirts and preparing to disassociate herself from the troublesome affairs of Europe in order to concentrate upon her own business. Germany lay prostrate and the apparently lifeless body had been stripped of its military apparel and clothed in hastily made, drab Republican garments. France had won her war and was frightened at the possible consequences of her victory since those who win great wars usually lose the peace. Turkey was . . . but there is no end to this catalogue unless one is brutal in suppression.

What next?

The Treaty of Versailles which came into force on January 10th, 1920, and whose fashioning has been described

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in the last chapter, set two groups of problems in front of the Allies. On the one hand the Treaty, and the three other treaties derived therefrom, made provision for the rearrangement of frontiers in Europe; for changes in the administration and status of overseas colonies; for the disarmament of the ex-enemy Powers; the payment of reparations, and by contrast the establishment of a League of Nations designed to be the instrument of a system of collective security and the centre of a reorganized and improved international society. These and similar matters raised problems calling for concerted action in many directions. They were problems which involved experiment with and operation upon the political and economic body of Europe, and particularly those limbs of the body inhabited by the peoples of the defeated nations. But side by side with these problems were matters of an urgent nature calling for immediate action. The Peace Treaties directed that certain things should be done to certain sovereign states and therefore assumed that these states would continue to exist while their vile bodies were denuded of kilograms of flesh.

The action taken by the Supreme Economic Council, which held its first meeting on February 17th, 1919, to prop up the collapsing economic structures of the ex-enemy Powers and to relieve the intolerable pressure on the neutrals has been dealt with in Chapter III, and the work of salvage as contrasted with that of implementing the Treaty is only mentioned again in the present chapter because the two tasks overlapped and were interconnected at every point. The labours of those engaged upon salvage and relief were necessarily influenced by the emergence in its final form of the Treaty of Versailles and its subsidiary treaties, whilst the task of those responsible for applying the treaties was affected by the extent to which the salvage work succeeded in restoring order out of chaos. It is the application of the terms of the Treaty to Germany which we shall now consider.

Although the Treaty of Versailles had set up a number of bodies charged with the duty of supervising the execution

of its terms, the personnel of these commissions were responsible to their governments and it was at once apparent that frequent meetings between the heads of the Allied states would be necessary to determine questions of high policy. Two difficulties were at once apparent. Firstly, the co-operation of the U.S.A. was lacking and yet it was impossible to ignore her existence if only for the reason that all the Allies were heavily in her debt. Secondly, the conclusion of the War had also terminated any formal alliance between France and Great Britain, and each government was henceforward free to pursue the policy which seemed best suited to its own ends. It may be objected that all the Allies were bound together by the Peace Treaties, but whilst this is true, it was soon discovered that these documents gave ample scope for differences of interpretation. From the very beginning of the Peace there existed a fundamental divergence of policy between France and Great Britain, and although it was not for many months that subterranean simmerings burst forth into eruption, we shall summarize here and now the nature of this difference.

The policy of France was more unyielding than that of Britain. It had two closely related objects. First, to secure reparation for losses in the War, and, second, to keep the German nation in a helpless condition as long as possible. It was the opinion of the French Government that the Treaty of Versailles, strictly interpreted, was an instrument capable of achieving both those results, and therefore the Treaty assumed in French eyes the sanctity of Holy Writ. He who tampered with the Treaty was tampering with the security of France, and France had suffered an agony so intense and enjoyed a revenge so sweet that she was determined to prevent a repetition of the former or a curtailment of the latter emotion. France was afraid. Assisted by the Allies she had laid low a nation numerically her superior, industrially and technically at least her equal; but across the Rhine her prostrate and unrepentant foe, as a prelude to staging a war of revenge, was apparently preparing to evade the

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penalties of defeat. At Paris, in 1919, Clemenceau under pressure from Lloyd George and Wilson had been obliged to modify French demands on Germany and in return he had been promised a treaty in which the English-speaking peoples were to have guaranteed the security of France. The withdrawal of the U.S.A. from European affairs<sup>1</sup> caused this vision to remain a dream and was one of the reasons why France subsequently built up a series of military alliances with Czechoslovakia, Yugoslavia, Rumania (The Little Entente)<sup>2</sup> and Poland. It seemed to France that these nations which, from a strategic point of view, stood like warders round the defeated Powers of Germany, Austria and Hungary, would naturally be anxious to stand by the Treaty of Versailles—a document which in the case of the Succession States was the birth certificate of their sovereign legitimacy.

The British policy was—as it always has been—extremely flexible in detail and wider in its scope than that of France. It was the policy of a World Power in contrast to that of a continental Power. As we shall see later on in this book the characteristic feature of British policy during the post-War decade was to be a strenuous attempt to create a world system of political security and economic co-operation. The present chapter is concerned chiefly with the period covered by the years 1920–23, and the scene is Europe. During these years and in this area, the story of events, [far too intricate to be even summarized in a book of this character] reveals a gradual reorientation of British policy away from the doctrine of close collaboration with France and towards the world outlook. For a short time, British public opinion, still under the influence of war hysteria, was in close support of the French thesis that the main object of policy should be the suppression of Germany, but by degrees the great commercial and financial interests in Britain, assisted by the traditional English feeling that war might be war but peace ought to be peace, asserted themselves. The British Government found themselves progressively in the quandary of endeavouring to hold back

<sup>1</sup> See p. 221.

<sup>2</sup> See p. 194.

the French without dishonouring the British signatures to the Peace Treaty. At the same time, the British were anxious to take care that Germany did not take advantage of the Franco-British rift to slip through that gap and so avoid just and practical retribution.

A word as to the German position. At the end of the War Germany was prostrate; the Socialist Republican Government was in extreme difficulty and faced with a rebellion (The Putsch of 1920), which it succeeded in putting down. The German policy during the period 1920-23 was one of stubborn resistance to the terms of the Treaty which seemed to every German to be proved unjust, both by the method of its presentation and by the War guilt clause, which the Allies used as the moral justification for the severity of the peace terms. More important from the point of view of German policy was the fact that much of the Treaty and most of its economic section contained provisions which were likely—if put into force—to cause the collapse of such pillars of the temple of western civilization as still remained standing. The Germans watched with hopeful eyes the growth of Franco-British differences and put up a rearguard action of delay, difficulty, procrastination, objections and defaults to the utmost limits of their powers.<sup>1</sup>

The matter may be compared to a tug-of-war. From 1914-21 the pull was along a straight rope at one end of which were France and Great Britain; at the other, Germany. By 1921 the British had disentangled themselves from their position as the anchor-man at the end of the French side of the rope and the contest had become an infernal triangle of forces. [A kind of political variant of the famous duel in which Mr. Midshipman Easy took part.] The two big questions around which the pull took place were Reparations and German Disarmament. As regards the latter question, there were never any serious disagree-

<sup>1</sup> It was on November 8th, 1923, that a certain Austrian builder's labourer—one Adolf Hitler by name—staged a comic-opera rebellion in Bavaria, declaring that "tomorrow will either find a Nationalistic Government in Germany or us dead." He went to prison next day—but not to die. Instead he wrote his book *Mein Kampf*, and dreamed strange dreams which came true.

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ments between French and British, nor, taking into consideration the magnitude of the material to be dealt with and the unprecedented nature of the task of the Allied Commissions of Control, can it be said that the business was unduly hampered by German obstruction. Leaving aside the controversial question as to what is the correct definition of an "armament" in modern war, a question which the Treaty of Versailles affected to answer with great exactness, it is a fact that the disarmament of Germany as prescribed in the Treaty was expeditiously achieved. Some delay was found to be necessary in the early stages in order to make it possible for the new-born Republican Government to keep order in the country, but by the summer of 1922 the Naval Commission had completed its work.<sup>1</sup> [The Inter-Allied Air Commission was disbanded on 5th May, having dealt with 14,800 aeroplanes, 30,000 motors, 500 aeroplane hangars and airship sheds, 11 airships and much plant.] By March 1923 it was stated in the House of Commons that the military armaments of Germany had been reduced so as to constitute effective disarmament—30,000 guns, 4,000,000 rifles, 100,000 machine-guns and 40,000,000 shells had been destroyed. The German army had been reduced to 100,000 long-service men.

We come to Reparations. This complicated subject was to grow and spread and become entangled with war debts until, for ten years, it sat like an old man of the sea upon the back of the world's economy. It was also the subject which provided the main issue about which Franco-British differences crystallized. The Treaty of Versailles was silent upon the question of the total amount to be paid by Germany in Reparations. It said that Germany was to make certain interim payments and that a Reparations Commission, representing Great Britain, France, Italy, the U.S.A., Belgium, Japan and Jugo-Slavia, was to examine and assess the sums due from Germany to make good the damage

<sup>1</sup> The German submarine fleet had been surrendered to the Allies at the Armistice; the High Seas Fleet was interned at Scapa Flow and subsequently sunk by its own ships' companies. It should be noted that, technically, the High Seas Fleet never surrendered and the Germans were fully entitled to sink their ships.

done under ten headings. The German Government was to be allowed to present its case, and by May 1st, 1921, the Reparations Commission was to notify Germany of a Schedule of Payments.

The Reparations Commission had therefore two tasks to perform in eighteen months: (a) Collect the interim payments in cash and kind to a value of twenty milliard gold marks; (b) Assess the grand total of Allied claims. It seemed possible in 1920 that (b) would never arise since the Allies had endeavoured to escape from their own difficulties in assessing reparations by writing a letter to Germany (June 16th, 1919) in which they proposed that Germany should examine the damage she had caused and then make proposals of her own to meet the bill.

The Germans did not take advantage of this offer, and by July 1920 the Allies found it convenient to invite the Germans to meet them at Spa. At this conference, which also dealt with German disarmament and certain of the deliveries in kind (coal), the Allies agreed upon the ratio in which they would share out reparations amongst themselves when the total was fixed and payments began to be made. They also rejected as utterly inadequate a German proposal for reparations which included a suggestion for the reconstruction of the devastated areas by an international syndicate of private capitalists, and a warning that unless the Allies were careful to relate their demands for "cash payments," to Germany's financial capacity,<sup>1</sup> "the rapid increase of the floating debt and of currency inflation would shortly annihilate Germany's entire capacity to pay."

In January 1921 the four principal Allied Powers and Belgium met in Paris to discuss Reparations and, ignoring a carefully worked out plan devised by Allied and German experts in December (the first attempt made to fix Reparations on the basis of "capacity to pay"), the Allies presented the Germans with a demand for two series of forty-two annuities. [The first series were to be fixed (after the first eleven payments)]<sup>2</sup> at an annual sum of six milliard gold

<sup>1</sup> Cf. Dr. Schacht's speech, Aug. 30, 1934.

<sup>2</sup> These rose by stages from 2 milliards to 5 milliards.

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marks. The second series was to consist of 12 per cent. of the annual value of German exports. The German Customs revenues were to be pledged to the service of Reparations, and various measures for the control by the Allies of the German economy were included.) These demands—far in excess of those advanced in the experts' plan—created savage astonishment in Germany. Their severity can be explained by the fact that French public opinion, convinced of the deceitfulness of Germany, was turning more and more to the view that it was fatal to negotiate with her traditional enemy and that it would be best to rely on the Treaty and the powers of the Reparations Commission as set forth in that document.

This was, in fact, the next stage of the business, but first there was a conference in London (March 1st, 1921) at which the Germans made counter-proposals and a fatal diplomatic blunder. Instead of putting up their own independent proposals—as they were entitled to do by the Allied letter of June 16th, 1919—they proceeded to take the Allied proposals and subject them to a scaling down which was breath-taking from the Allied point of view, especially as the extremely moderate sums which Dr. Simons felt Germany might be able to pay were made contingent upon a number of political concessions, such as earlier evacuation of the occupied area on the Rhine, the retention of Upper Silesia by Germany and similar favours. The British and French Governments rallied together in the presence of such truculence (conditions on the home front in Germany at this time made it essential for Dr. Simons to be "firm") and, after presenting Germany with a long list of her defaults in connection with the whole Treaty, the Allies informed Germany that unless she accepted the Paris proposals, sanctions would be put into force.

The conference broke up. Three towns on the edge of the Ruhr district were occupied by Allied troops; a tax was imposed in Allied countries on all German imports, and the custom receipts on the frontier between Germany

and "occupied Germany" were declared to be forfeit. The Germans appealed to the Council of the League and to the U.S.A. against these sanctions whose legality was in fact very doubtful. The appeals were in vain. Nevertheless, the Allies were in a difficulty since the Germans though being "sanctioned" were not showing any signs of accepting the Paris proposals.

There was no alternative but to fall back on the procedure laid down in the Treaty and call upon the Reparations Commission to do its duty and state the bill for damages and claims on the Allied side.

In anticipation of this event the Commission had been at work and had found their task bristling with difficulties—some of German, some of Allied origin—and by January 1921 the Commission was in dispute concerning the question as to whether the interim payment of twenty milliards due by May 1st had or had not been covered by payments in kind.

On April 27th, 1921, the Reparations Commission announced that it had "decided unanimously to fix at 132 milliards marks (gold)<sup>1</sup> the amount of the damage for which reparation was due from Germany." The Allied Governments then presented a schedule of payments to Germany and an ultimatum in which the principal threat was that of an occupation of the Ruhr valley on May 12th. On May 11th, notwithstanding a political crisis in Germany, a ministry was formed just in time to accept the ultimatum.

## *2. The Parting of the Ways*

The last-minute acceptance by the German Government of the Allied ultimatum on May 11th, 1921 marked the beginning of the second phase of the Reparations question: a phase which lasted until January 11th, 1923, upon which

<sup>1</sup> One hundred and thirty-two milliards marks gold represented £6500 million. In their counter-proposals when the Peace Treaty was handed to them at Versailles the Germans had offered to pay 20 milliards in cash and 80 milliards in goods and services, from which were to be deducted various credits such as the value of all state property in ceded territory.

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date the French Government took independent action against Germany by occupying the Ruhr basin.

This second phase was marked by a growing deterioration in the German economic situation, and a growing divergence between French and British policies. The triangular tug-of-war previously mentioned was taking shape. During the first few months of the period now under review all went well as regards German payments of the first instalment as laid down in the Schedule of Payments set forth by the Reparations Commission. The principal event was a dispute between the Allies about the division of the spoils and an objection by Great Britain to an arrangement France had made with Germany concerning deliveries in kind. (The Wiesbaden Agreement, October 6th, 1921.) It was claimed by Great Britain that this agreement gave France a priority of payments to which she was not entitled. By the autumn of 1921 a danger signal was flying in the shape of the depreciation of the mark. The Germans had vehemently declared that the Schedule of Payments was far beyond their capacity and could only result in catastrophic inflation. In July 1921, the mark on London (par of exchange, 20 marks to £1) stood at 279. In August it was 305; in September, 399; and in November it had fallen to 1910 to the £1.

It seemed probable that the instalments for 1922 would not be forthcoming since they had to be delivered in foreign currencies. Towards the close of the year the Reparations Commission visited Berlin and urged the German Government to make every effort to secure the necessary foreign exchange. This counsel of perfection did not and could not prevent the Germans from announcing that they would be in substantial default on the payments due in the spring of 1922.

The British Prime Minister (Mr. Lloyd George), felt that the time was now ripe to lift the whole Reparations question on to the higher plane of European reconstruction, both political and economic. It was suggested by Great Britain—at the Cannes conference (January 6th to 13th, 1922)—that a great European economic con-

ference (to which Russia and the ex-enemy Powers must be invited) should be held at Genoa; that French security should be guaranteed by an obligation on the part of Great Britain to defend France in the event of German aggression and that Reparations should be reviewed in a realistic manner in the light of these two proposals, and of Germany's capacity to pay.

To the British the fundamental purpose of the Cannes conference was to launch a co-operative political and economic movement in Europe. In Mr. Lloyd George's words at the opening of the conference "A united effort of the stronger Powers is necessary to remedy the paralysis of the European system."<sup>1</sup> This wide outlook on the part of Great Britain immediately caused grave trouble for the French Premier, Monsieur Briand. The latter was, in fact, arguing with Mr. Lloyd George that the security guarantee must be reciprocal and must be accompanied by a convention between the general staffs, when he was abruptly recalled to Paris by the French President and arrived there under deep suspicion that the wily Lloyd George was persuading him to sacrifice the vital interests of France on the altar of British policy. In vain M. Briand protested that he was holding the fort, even though he had been given a lesson in golf by the British Premier. His government was overthrown and the implacable M. Poincaré<sup>2</sup> took his place.

The Cannes conference broke up in confusion and the outlook for Allied co-operation darkened appreciably.

The Genoa conference (April 10th to May 19th) had already been fixed and was duly held. It failed to fulfil the high hopes originally placed in it and was chiefly notable for (1) the treaty of Rapallo, concluded—to the intense irritation of the Allies—between Russia and Germany outside the conference room; (2) a complete

<sup>1</sup> British White Paper (Cmd. 1621 of 1922). Eleven years later the British Government was saying the same thing about the world at the World Economic Conference of London.

<sup>2</sup> M. Poincaré had succeeded the Caillaux ministry in France in 1912. The Caillaux government had been pursuing a policy of friendship with Germany. As soon as Poincaré came into power he began to encourage Russia's forward policy in the Balkans. (See the Isvolsky dispatches.)

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disagreement between Great Britain and France upon the question of relationship with Soviet Russia. With the collapse of the Genoa conference there disappeared, for the time being, the chances of success of the British policy of reinterpreting the Treaty of Versailles in terms of the wider issue of European, if not world, reconstruction. The initiative passed to M. Poincaré, whose attitude was made plain in a speech delivered in the devastated areas at Bar-le-Duc on April 24th, 1922. In this oration M. Poincaré, after stating that by May 31st, Germany would be under an obligation to submit her finances to inter-Allied control, said that, if she refused to do so and if the Reparations Commission declared her to be in default then it would be necessary for coercive action to be taken. M. Poincaré added pointedly, that though it would be "infinitely desirable" for the Allies to agree in this matter, yet each "interested nation" was by the Treaty permitted to take independent action and if needs be: "we will defend the French cause in complete independence and we will not let fall one of the weapons given to us by the Treaty." The supervision of German finances mentioned by M. Poincaré was part of the price imposed upon Germany by the Reparations Commission in return for a partial moratorium on the 1922 Schedule of Payments.

The complicated process of establishing a daily system of supervision over German finance was hardly moving when a communication was received from the German Government stating that a financial catastrophe in Germany was imminent and that with a rapidly depreciating exchange<sup>1</sup> it was impossible to purchase the requisite sums of foreign currency. The Germans demanded a moratorium up to 1925.

An Allied meeting was held in London to consider the situation but only revealed wide differences between French and British; the former proposing extensive inroads upon German economic life, the latter doing all they could to

<sup>1</sup> The mark on London in July 1922 was 2177, in August 4676 to the £1; it fell to 35,000 by the end of the year.

moderate French demands and give Germany a moratorium on reasonable terms.

The issue was handed back to the Reparations Commission, in which body the same national division of opinion took place.

In November 1922 the German Government, fortified by a pessimistic report on the economic state of Germany prepared by a distinguished body of unofficial experts, made proposals to the Allies. These included a moratorium for three or four years, foreign credits, and the removal of restrictions on German trade.

Another conference of Allies was held in London to discuss these proposals, but it foundered upon the rock-like immobility of M. Poincaré's resistance to any concessions unaccompanied by "productive guarantees." It was decided to transfer the discussion to Paris, but, before this materialized, French policy manifested itself with unmistakable emphasis upon the Reparations Commission. M. Poincaré had demanded "productive guarantees," such as the seizure and exploitation of the Prussian state mines in the Ruhr, the appropriation of 60 per cent. of the capital of certain German dye-stuff factories and so forth, as the price of a moratorium for Germany.

The Treaty of Versailles provided for "sanctions" on Germany in the event of default in reparations, but up to December 1922 the Reparations Commission had not formally declared Germany to be in "wilful default." At a meeting of the Commission held on December 26th, 1922, the French representative, M. Barthou, moved that Germany *was* in default. Technically he was correct, since at that moment, apart from the wider issues of the large payments of which Germany had already been granted a provisional moratorium pending the Allied decisions, Germany was a few weeks behind time in some small deliveries of timber. The British representative, Sir John Bradbury, ridiculed the notion that the nature of this technical default was of any material importance. He described it as "almost microscopic" and tore aside the

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veil of make-believe in order to reveal the real purpose of the French resolution. Sir John said :

“This trumpety accusation was only before the Commission . . . as a preparation for an offensive in other fields. Since, in the tenth year of the war, Troy fell to the stratagem of the wooden horse, history recorded no similar use of timber. The situation was at present somewhat different ; it was the fifth year of the Peace, and the city under attack was not Troy but Essen.”<sup>1</sup>

Notwithstanding the efforts of the British delegate to torpedo the French design, the Commission by three votes (France, Belgium and Italy) to one pronounced Germany to be “in default.”

When the Allied Conference reassembled in Paris on January 2nd, M. Poincaré had got his verdict from the jury and demanded judgment. He laid on the table a document outlining the French view of what the sentence should be. It was countered by a British document and a glance at the two proposals showed the whole world that the parting of the ways between Britain and France had been reached. The British insisted that it was essential to fix the German liabilities once and for all ; that they must be within her capacity to pay and that foreign interference into her economic life—as demanded by France—could only still further aggravate Germany’s critical condition. Mr. Bonar Law—Conservative Prime Minister of Great Britain since the collapse of Mr. Lloyd George’s Coalition Government in 1922—said to M. Poincaré :

“You can try to get your money, and a small amount it will be in any case. You can try by seizing what you can get your hand on now, but you cannot do the two things. You cannot at the same time seize what you can get and leave German credit a chance of recovery.”

<sup>1</sup> Quoted by Arnold Toynbee in *The Survey of International Affairs*, 1920-23 pp. 191-92.

The impasse was complete. On January 4th His Majesty's Government "regretted extremely that there should be an irreconcilable difference of opinion on a subject so serious." The Government of the French Republic "deeply regret their inability to agree with the British Government on those serious questions." Mr. Bonar Law returned to London; on January 10th the American army of occupation was recalled from the Rhine and on the 11th the French and Belgian troops began to enter the Ruhr basin. The rate of exchange of the mark on London on January 12th was 49,000 to the £1. On January 18th it was 115,000 M = £1.

An armed France, with her Belgian ancillary, and a disarmed Germany were left alone in the ring for the next round in the seemingly eternal conflict between the peoples east and west of the Rhine.

### *3. The Bailiffs take Possession*

The independent debt-collecting inaugurated by the Franco-Belgian occupation of the Ruhr opened the third phase in the story of Reparations and created something closely resembling a state of war between those Powers and Germany. It lasted from January 11th to September 27th, 1923. The Germans were physically incapable of resisting what was in effect an invasion of one of the key areas of the economic life of their country. The concentration of economic wealth in the Ruhr basin was quite exceptional. Though the territory is only sixty miles long and thirty miles broad, it is estimated that at the time of these events 80 per cent. of Germany's coal, 80 per cent. of her steel and pig-iron production, and 70 per cent. of her goods and mineral traffic arose from the Ruhr, whilst 10 per cent. of the total population of Germany dwelt in the area.

The French plan was to set up a commission (M.I.C.U.M.)<sup>1</sup> with instructions to take the necessary steps so to control the activities of the Ruhr coal syndicate that the requisite

<sup>1</sup> Mission Interalliée de Contrôle des Usines et des Mines.

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quantities of coal should be delivered as reparations. The German Government accepted the challenge, declared that the invasion was a breach of the Treaty of Versailles, partook of the nature of "military action," was a grave infringement of German sovereignty and one which the German Reich would resist to the best of its ability. The resistance took the form of (a) Prohibiting all German citizens from rendering any assistance to the invaders; (b) guaranteeing financial assistance to any German citizen who lost his means of livelihood through obeying the injunction to resist passively. These instructions from Berlin met with a ready compliance from the inhabitants of the Ruhr who refused to have any dealings with the Allied officials. German officials acted as if the invaders were non-existent; post offices, telephone exchanges, newspapers and establishments of all kinds flatly refused to have any dealings with "the enemy."

The invaders retaliated by screwing up the severity of their administration in the Ruhr and by making life still more unpleasant for German residents in the occupied areas in the Rhineland to the south. Outrages were committed upon both sides and several hundred Allied soldiers and German soldiers were killed. [The state of violence was similar to that existing in Ireland in 1921 when the British auxiliary police (the Black and Tans) were engaged in guerilla warfare against the Sinn Fein party.<sup>1</sup>]

Approximately 150,000 German citizens were expelled from the Ruhr, often at the shortest notice, no time being given to the victims in which to remove their property. A rigid censorship was enforced; public buildings and private property were seized and the Ruhr was cut off from the mother-country. The French and Belgians administered the customs and eventually were forced to take over coal mines and import over 12,000 railwaymen in an attempt to work one of the most intricate traffic systems in the world. The German railway staff numbered 170,000 in normal times.

<sup>1</sup> See p. 250.

The whole world watched with breathless and fascinated attention this terrible struggle between armed France and disarmed Germany, between a France tortured by anxiety for her future security and a Germany convinced that every month she could hold out brought her an accession of world sympathy. The pressure on the German economic system was devastating. The rate of exchange of the mark on London crashed from about 100,000 to the £1 during the spring of 1923 to about 15,000,000 to the £1 during the autumn.

At last in the autumn the German Government surrendered and withdrew its support from the passive resistance movement. On the material side the French had gained a Pyrrhic victory, for the franc slumped during 1923 from 67 to 90 to the £1 and the ruin of Germany's credit had necessarily made it more unlikely than ever that Germany would be able to pay reparations on the scale laid down in the Schedule of Payments, payments which France had already discounted in supplementary budgets for the restoration of the devastated areas.

Morally, France was well satisfied. She had seen Germany brought to heel at Versailles in 1919 and forced to sign a treaty calculated to keep her in subjection for an indefinite period. Four years later, in 1923, France had proved that Germany was still at her mercy. The Treaty worked.

It would have needed a prophet of great vision—and he would have had no honour in Paris and not much in London—to foresee that one of the long-term results of this adventure into the Ruhr was to administer a fatal check to any chance there may have been of the new-born republic establishing itself in post-War Germany, and that the foundations of the Nazi movement were being laid during these months of German suffering and humiliation.

Though the French had broken the will-power of Germany in general and the inhabitants of the Ruhr in particular, the question of reparations was in complete confusion and it was evident that a further consideration of this problem was essential.

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Here a reference must be made to an enterprise of a particularly scandalous nature, undertaken by the French towards the end of 1923. This was the so-called "Separatist Movement" which the French financed and stage-managed in the German provinces west of the Rhine, so as to set up a buffer state under French influence between France and Germany.<sup>1</sup>

Although the British Government had profoundly disapproved of the French adventure in the Ruhr, they had not ceased to consider what could be done to solve the intricate problem of reparations in a manner which would meet the just claims of the Allies and yet be economically possible to Germany. During the summer of 1923 Lord Curzon (British Secretary of State for Foreign Affairs) and M. Poincaré conducted a long-range bombardment of each other with diplomatic notes which did nothing to ease the tension between the two governments. However, this Anglo-French diplomatic duel was not the only important correspondence entering and leaving the British Foreign Office during 1923. The British Government reached the conclusion during the autumn (immediately after the surrender of the German Government to France on the question of supporting passive resistance in the Ruhr) that the only way to lift the whole matter of Reparations out of the atmosphere of German-French hatreds was to persuade the U.S.A. to co-operate in finding some solution. Correspondence began between Washington and London and the Americans seemed ready to assist, provided that by such action they were not to be officially involved in European political questions. It so happened that at this time, for reasons which will be dealt with elsewhere,<sup>2</sup>

<sup>1</sup> An account, fully documented, of the almost unbelievable behaviour of the French Government in the rôle of agent-provocateur can be read in the *Survey of International Affairs*, 1924, pp. 300 *et seq.* Cf. Japan's action in Manchukuo in 1933.

One of Clemenceau's proposals at Versailles had been the establishment of an independent Republic on the Rhine.

<sup>2</sup> The reasons were (a) the settlement of the quarrel between Great Britain and the Irish, (b) the success of the Washington Naval Disarmament Conference, (c) the first settlement of the War Debt between Great Britain and the U.S.A.

relations between the United States and Great Britain were exceptionally cordial and the British were able to make good use of their ability to understand European and speak American.

M. Poincaré's face had been saved by the abandonment of passive resistance in the Ruhr, and the hard facts of the economic chaos in Germany and his own hopelessly unbalanced budget were left on the table. In these circumstances he found himself able to agree to the notion that some experts under the leadership of the American General Dawes should examine Germany's capacity to pay both immediately and in the near future.

The Committee duly reported and presented the Dawes Plan. Its extreme importance was that it lifted the Reparations question out of politics and put it into economics.

"The standpoint adopted has been that of business and not politics . . . the recovery of debt, not the imposition of penalties, has been sought. . . . The payment of that debt by Germany is her necessary contribution to repairing the damage of the War. . . . The reconstruction of Germany is not an end in itself; it is only part of the larger problem of the reconstruction of Europe. . . . Guarantees proposed are economic, not political."

The above extracts from the official summary of the Plan indicate the attitude of its authors towards the Reparations question and it was this attitude which was reflected in their detailed proposals.

#### *4. Peace at Last*

The Dawes Plan provided for a five-year sequence of annuities covering the whole of Germany's treaty obligations except the service of the Dawes Loan. The annuities were to rise from 1000 million gold marks in 1924-25 to 2500 million in 1928-29. It was intended that *after* 1928-29 they should be modified in two ways. Firstly, by a supple-

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mentary payment based on an index of prosperity, and secondly, the amount of both the standard annuity and the supplement was to vary with any appreciable change in the purchasing power of gold. To relieve the immediate crisis a Dawes Loan was floated to cover the first annuity, subscribers being given as security control of the state railways and the Reichsbank, and the debtors assuming the responsibility for transforming the reparation payments into foreign currencies. The chief drawbacks of the scheme were that it left the total amount of German obligations undefined and the date of the final annuity payment undetermined. The arrangement for varying the nominal burden of the German debt if world prices changed (so as to keep the real debt burden the same) was an extremely interesting and important innovation. Unfortunately it was not incorporated in the Young Plan which replaced and modified the Dawes Plan in 1929.<sup>1</sup>

It remained to incorporate the Dawes Plan into a political agreement to which three bodies had to be parties, viz.: The Allies, the Germans and the Reparations Commission. These complicated negotiations were successfully achieved at a conference in London (August 1924) which was notable as being the first international gathering at which Allies and ex-enemies had shown a real desire to co-operate in search of mutually satisfactory solutions to common problems.

By the end of 1924 the French and Belgians had left the Ruhr, the Dawes Plan was in operation, and the international loan to Germany (part of the Plan) had been heavily over-subscribed in the money markets of the world.

The man in the street believed that he had heard the last of Reparations and was wearily preparing to face up to the apparently separate question of Inter-Allied War Debts. Responsible opinion was under no such delusions and looked upon the Dawes scheme as but a temporary measure

<sup>1</sup> This particular provision of the Dawes scheme may yet prove to be an important precedent if, and when, international lending is resumed on a large scale.

designed to give the world breathing space for a few years, during which public opinion could receive additional education in the elements of international economic problems. Nevertheless, if part of the economic aftermath of the War had been temporarily put into cold storage, the great political problem of international security remained unsolved, and with its existence was bound up the whole question of disarmament and the future of the League. It seemed to the British Government that at the core of this question lay the matter of Franco-German relations. In the good atmosphere created by the acceptance of the Dawes scheme the time seemed ripe to tackle this great issue. Moreover, in France, Germany and Great Britain, it so happened that at the end of 1924 three governments of the Left were in power.

The French people in the elections of May 1924, having come to the conclusion that M. Poincaré's policy of force against Germany had not been very satisfactory, dismissed him. M. Herriot, a Radical, became Prime Minister in his stead. In Great Britain there had also been general elections and a Socialist Labour Government under Mr. Ramsay MacDonald was in office. It was a minority Government dependent on Liberal support. The Conservative Government of Mr. Baldwin was defeated because it fought the election on the proposal of tariffs for Great Britain, and at that time the British still clung tenaciously to the Free Trade doctrine. The German Foreign Minister at this time was Dr. Stresemann, a statesman who had reached the conclusion that the best course for his country was that of "a policy of fulfilment," of trying to fulfil the terms of the peace treaties in the hope of thereby gaining the friendship and respect of the victorious Powers and so persuading them gradually to revise the treaties. The British Government<sup>1</sup> took the initiative, and the year 1925 was marked in Europe by the efforts of the British to construct a framework which, whilst acceptable to British opinion, and this meant a limit to the degrees of overseas commitments,

<sup>1</sup> The first Labour Government had lost office in November 1924 and had been succeeded by a Conservative administration.

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would yet give France that sense of security for which she yearned, and to Germany some measure of that sense of equality amongst equals for lack of which she remained a pathological case.

After long negotiations a series of treaties was signed in London on December 1st, 1925. These are the Locarno Treaties.<sup>1</sup> The French Prime Minister (Briand) said of them: "We are now only Europeans." Stresemann, for Germany, said the same thing. The British Foreign Secretary (Austen Chamberlain) said "These treaties are the real dividing line between the War years and those of peace." The treaties were officially described as being intended to "preserve the nations concerned from the scourge of war and to provide for the peaceful settlement of disputes." Their main features consisted of a promise by Great Britain and Italy to come to the assistance of France if attacked by Germany, and of Germany if attacked by France. Furthermore, Germany promised to be content for ever with her western frontier as settled by the Treaty and not to go to war to alter her eastern frontier.

So ended 1925 and the first five years of attempts at peace. They ended on a note of hope. The Dawes scheme for the payment of reparations by Germany had been accepted by all concerned and a great international loan had been made to Germany to enable her to put her finances in order as a preparation to making reparation payments. It was understood that Germany would shortly be invited to become a member of the League.<sup>2</sup> Germany had sat at the Locarno Conference as an equal amongst Great Powers and she had the promises of Great Britain and Italy that they would protect her from attack by France. France was once more on good terms with Great Britain and saw a reasonable hope of getting some substantial reparations out of Germany. She had the satisfaction of a solemn promise by Germany to the effect that the latter would never

<sup>1</sup> See p. 277 for further particulars. They were not ratified by the British Dominions.

<sup>2</sup> She was admitted on September 8th, 1926.

try to regain Alsace-Lorraine and she had a promise by Great Britain and Italy that if Germany broke her word and attacked France, these two states would declare war on Germany.

It seemed to Englishmen that they had gone a long way to meet French fears and that a real peace might begin, for surely France must now feel secure.

Guthrie - Hardy : Chapter 17 - The Economic Causes and the end of Reparation  
Young Plan (1929) to Lausanne (1932).

King - Hall : Vol. I Chapter XIX, XX - Financial Crisis, 1929-31; death of the Gold Standard.

Vol. II Chapter XII - Economic Debacles, 1931-34

## CHAPTER VI

SOVIET RUSSIA, 1919 TO 1925-26

"A little leaven leaveneth the whole lump."—Galatians v. 9.

THE importance of Russia in the story of our own times lies in the fact, that by a strange combination of circumstances it came to be the destiny of the Russian people to provide the faith of Communism with that outward and visible body without which there may be faith, but there will be no Socialistic works.

Russia and the Russians were to be to Marxism what the Arabs had been to the teachings of Mahomet, what, up to the Reformation, the Church of Rome had been to the Christian religion; what the people and government of Great Britain had been during the nineteenth century to the teachings of Adam Smith, and the doctrines of economic and political liberalism.

Since the "works" or "outward and visible signs" of the spirit of Communism, that is to say, the framework through which the ideals of Communism can be achieved, of necessity entails some form of elaborate state control of economic life — PLANNING as we call it in 1934 — the appointment by Providence (or, as some prefer to say, the election by Satan) of the Russians as the racial material for this experiment is a great and abiding mystery. It is interesting to speculate as to what might have occurred if it had been Germany and the methodical, painstaking, scientific Teuton into whose hands and to whose care the spirit of Communism had confided its destinies at the beginning of the twentieth century.

But what is Communism? Some answer must be given to this question before we can understand what happened in Russia between the Revolution of 1917 and the period 1925-26, and why it happened.

1. *The Faith*

Communism, like every other religion or faith, and Communism very obviously is a faith and not merely an intellectual concept, can be considered from two points of view: its object and its method of attaining that object. The object of Communism is to create a society in which there will be no classes and no private ownership of the means of production. Property, by which word is meant all the capital needed as the means of production and distribution, is not to belong to or be controlled by private individuals, but is to be owned by the state as representing the whole community.<sup>1</sup> The production and distribution of wealth is to be governed by the formula "From each according to his abilities; to each according to his needs." Furthermore, this state of society is to be universal.

So far, there is no difference between the ideal of Communism and that of Socialism, but when we examine the methods by which Communism insists that a property and class society is to be changed into a propertyless and classless society, a fundamental gulf yawns between Communists and Socialists. The latter believe that the change can be brought about gradually and in an evolutionary manner; the Communists insist that the change must begin with revolution, since the working class must seize power from the capitalists who own and control the means of production, and whose influence dictates the action of the state. Here, perhaps, is the place to emphasize the fact that the Communist regards the Social Democrat (Socialist of the Second International, *e.g.* British Labour Party) with particular dislike. The crime of the Socialist from the Communist point of view is that the former is perpetually blurring the issue in the class war.

The Communist argues that if the Socialist obtains political power and makes a business-like but constitutional attack on capitalism in order to bring about Socialism in

<sup>1</sup> A Communist can own personal property. Stalin observed that "equality in requirements and personal life is a reactionary-bourgeois absurdity worthy of some primitive sect of ascetics." [Report to 17th Party Congress, February 1934.]

our own time, the capitalist will at once counteract by unconstitutional means and destroy the Socialists. If on the other hand the Socialists adopt Fabian tactics and pin their hopes to the inevitability of gradualness, such a process will merely add to the number of *petit bourgeois*, or small capitalists. This will create a body of persons who have much more to lose than their chains and soon become as hostile to the demands of the proletariat (property-less men) as any multi-millionaire. To Communists, the Socialist is a perfect example of the man who wants to have his cake and eat it. But, it may be argued, why should the Socialists be destroyed? Because—replies the Communist—quite apart from the natural advantages which are likely to be available to the capitalists, *i.e.* the control of wealth, of the Press, of broadcasting, and of the fighting services, the Socialists enter the struggle with one hand tied behind their backs, since being by definition “evolutionaries,” they cannot use revolutionary methods against the capitalist forces. “But supposing,” we may imagine Sir Stafford Cripps saying, “faced with unconstitutional resistance to the policies of a Labour government by (say) the banks in Great Britain, I take strong action, such as legislation by emergency decree?” “Then,” replies the Communist, “you are behaving as a Communist, that is to say, you are taking revolutionary action and you might as well go the whole hog and set up a Council of Safety and hang a few bankers in front of the Mansion House. Such action will save time and show you mean business.” It is important to realize that Communists do not call for revolution because they think that there is anything particularly attractive or pleasant in violence. The Inquisition did not rack heretical bodies and deliver its victims to the secular arm for consignment to the flames because the Inquisition loved torture. It loved truth. It tortured in search of truth, and if heresy was found, bodies were destroyed to save souls. Similarly the Communist seeks to destroy Capitalism in order that Marxism shall arise from the ashes. Man must be freed from the degrading incubus of his capitalist institutions.

It may be asked, why do the Communists assert with such vigour that a revolution is indispensable?

Modern forms of the Communist doctrine—there have, of course, been many “Communist” societies since the earliest times—trace their origin mainly to the works of Karl Marx. This German Jew, born at Trier in 1818, migrated to Britain in 1849, between which date and his death in 1883 he lived in poverty in Soho, and spent much of his time working in the library of the British Museum. His best-known works are his *Capital* and his *Communist Manifesto*, and in these and other writings his doctrines take shape.

Marx's thought centres around two fundamental conceptions. The first is the Materialist Conception of History. This theory may be summarized as follows: at any given period in history society has certain economic resources at its command, and it will be organized in such a way as to give power and authority to those who control these resources. At any given period in the history of the world the opinions believed to be true, the nature of the organizations in existence, in short, the general type and character of the period, are determined by the manner in which wealth is produced and distributed. For example, those who believe in the materialist conception of history would explain the Great War not as a struggle of Democracy *versus* Autocracy, but as the result of the struggle between capitalist powers for world markets and raw materials. Karl Marx said: “In broad outline, we can designate the Asiatic, the Ancient, the feudal and the modern methods of production as so many epochs in the progress of the economic formation of society. The bourgeois relations of production are the least antagonistic form of the social process of production—antagonistic not in the sense of individual antagonism, but of one arising from conditions surrounding the life of individuals in society; at the same time, the productive forces developing in the womb of bourgeois society create the material conditions for the solution of that antagonism. This social formation constitutes, therefore, the closing chapter of the prehistoric stage of human society.”

Thus there is a process of movement: every economic organization develops, and in due course every dominating class calls forth its counterpart which will seize power. Class changes tend to lag behind economic changes, but in due course the time arrives for another class to take over.

The second fundamental doctrine of Marx was that of surplus value.<sup>1</sup> All wealth is created through labour, and labour alone. But the instruments of production are in the hands of a small class of capitalists. These are able to impose their own terms on those who work; the labourer receives only a proportion of what he produces; the surplus goes to the capitalists.

This doctrine is alleged to be important because of the emphasis it lays on the conflict of interests between those who own and those who produce. Labour and capital must always be in opposite camps, their interests pulling away from each other. Hence the class war.

These two doctrines combine to point the way to future development. Capitalism will crystallize and then—if we may mix the metaphors—when the fruit is ripe the proletariat will seize power. This will be a revolutionary change, for the property-owning class will never voluntarily dispossess themselves. It is impossible for the capitalist state—according to the Marxian theory—to be anything else than the creature of the bourgeois class. Power must be seized by force.

One may sum up the strategy of Communism by saying that it aims at creating by all possible means a revolutionary situation whilst taking care to have ready a well-organized, blindly obedient, revolutionary party ready to seize power at the appropriate moment, and to set up a dictatorship in the name of the proletariat. It is important to note that it is explicitly stated in Communist doctrine that the final Communistic or Socialistic society will not come into existence at the revolution. The first stage is that of dictatorship, and only then will the Communist Party be

<sup>1</sup> Marx's economic doctrines are open to serious criticism, and though they provide a convenient explanation of the class war, they are not fundamental to Communism.

in a position to set about the task of creating the proletarian state. Pure 100 per cent. Socialism will not at first be seen, since society will still be tainted with the marks of the old order. This period of transition is one in which, to use Rousseau's phrase, the Communist "forces the majority to be free."

It is significant that to Marx this revolution was to be an international affair. He himself established in London in 1864, the International Working Men's Association (First International),<sup>1</sup> but it collapsed seven years later. In 1871, during the Franco-Prussian War, a commune in Paris was set up by the French section of the Communist Party, but after great bloodshed the commune was suppressed. This international aspect of Communism is, as we have seen and as we shall see again, of considerable importance as we survey the happenings in Russia in post-revolutionary years.

But when we come to apply the Communist analysis to Russia we are at once faced with a striking paradox. Pre-War Russia was for several reasons the last country in which the revolution should have begun. Only very partially industrialized, it was above all things a peasant state run on almost feudal lines. According to the Marxian hypothesis, the fruit should ripen and the proletariat pluck it when the time came; in Russia there was very little fruit and such as there was looked suspiciously unripe.

We must now consider why a revolution occurred in Russia, and why, when the revolution did occur, it opened the way to the seizure by Communists of the machinery of the Russian state.

## *2. Russia in Revolution*

In March 1917, the Allies were startled—if not entirely surprised—to hear that the Tsar had been forced to abdicate. The Russian Revolution had begun.

<sup>1</sup> The Second (or Socialist Party) International was first formed in 1899. Its constitution dates from 1900. It collapsed in 1914 into two sections, pro- and anti-war. It was revived in 1920. From the Marxian point of view the Second International is hopelessly bourgeois and as much use to the proletariat as a sniff at the cork of a whisky bottle is to a dipsomaniac.

The idea of revolution in connection with Russia was not an unfamiliar one to the Western world. There had been an abortive attempt at revolution in 1906 after Russia's defeat by Japan; at various times before the War there had been outrages and political unrest. But criticism of the illiberal tendencies of the Tsar and his Government had more or less ceased in Great Britain when, with the outbreak of war, Russia the bugbear had become Russia the Ally. To the general public in Great Britain the events of March 1917 came as a rude awakening, but the immediate reaction of a government-supervised Press was to reassure the public that all would be for the best. It was tactfully pointed out that since Russia had now become "truly democratic," it was permissible to observe that there had been something rather unsatisfactory in the fact that one of the chief Allies on the side of Freedom and Democracy in the war against Autocracy and Militarism had been the reactionary government of Tsarist Russia.

There were several elements which made for revolution inside the Russian political and economic structure. Perhaps most conspicuous was the gulf which divided peasants and landowners. The Russian peasant was not far removed from serfdom. He was officially freed in 1861. The village community round which his activities centred was so organized that the productivity of land was low; in many of these communities the land was redistributed among the peasants at regular intervals in true mediæval fashion, the benefits arising from different families sharing in turn the good bits and the bad, being more than neutralized by their unwillingness to develop thoroughly land which would pass to some other family in an ensuing year. Generally speaking, methods of cultivation and standards of living alike were low, and in many parts of Russia there was a definite shortage of land for the peasants' needs. To some extent the peasants would eke out their own meagre earnings by working at certain seasons for the neighbouring landowner. The efficiently cultivated land was all in the hands of the land-owning class, and provided the vivid contrast of riches and poverty. Here was one source of

dissatisfaction, based on a primitive instinct and owing little to current theories of revolution.

The second source of revolution was to be found in the towns. Industrial development, though it wore in Russia a somewhat exotic air, had been rapid in the last few years before the War. A large part of these manufacturing developments owed their origin to foreign-owned capital, especially French capital. These industries were concentrated in a few of the large towns. With them there had inevitably grown up a proletariat, strongly influenced by currents of political thought. But industrialized Russia was only a very small part of the whole picture, the most striking aspect of which was the absence of a middle class. It is this absence of a middle class which has given to Russian revolution so different a colour from revolution elsewhere.

The third source of revolution lay in the War. The Russian army was war weary, and natural dissatisfaction was heightened by rumours of treachery in high places. This dissatisfaction with the War was an incentive to revolution, and was one of the connecting links between the theories of the Communists and their seizure of power in Russia.

In a letter dated April 1917 from Moscow, where he was then hiding, Vladimir Lenin, a lifelong revolutionary, laid down four conditions for a successful revolution. They were :

- (1) The machinery of government must be in dissolution.
- (2) There must be a revolutionary class determined to take advantage of the collapse of government.
- (3) A revolutionary party to lead the class.
- (4) An autocratic chief in the revolutionary party.

In Russia in 1917 the first condition was fulfilled. As regards the second, the position was peculiar. In theory this revolutionary class should have been an industrialized proletariat, but this was lacking (hence the presumed improbability of Russia being the first home of Communism through revolution according to Marx). But

there were the peasants, and in his pamphlet, *The Agrarian Programmes of Social Democracy*, written before the War, Lenin pointed out that the "peasants were ready to fly at the throat of the landlords and to strangle them." It was therefore the land hunger of the landless peasants which was available as the motive power for revolution. As we shall have occasion to see later on, the necessity of using the peasant class in order to satisfy Clause (2) of the conditions for successful revolution was to create an extremely awkward dilemma for the Communist Party. As regards Clause (3), the revolutionary party in Russia was well organized and had been through the fire of an unsuccessful revolution in 1905-06. Finally, the fourth condition was satisfied in the person of Lenin, one of the most remarkable human beings of any age. Lenin's real name was Vladimir Ilyich Ulyanov, and though he died at the early age of fifty-three, "he also found time, like Peter the Great, to turn Russia upside-down first and to give the whole world a shock into the bargain."<sup>1</sup>

Michael Farbmann has sketched Lenin's personality and the reason for his hold over the popular imagination.<sup>2</sup>

"For thirty years he had been consumed by a desire to make and to participate in the Revolution of the working class. . . . This craving to lead the Revolution in his lifetime is the governing characteristic of Lenin. But with him it is not an egotistical longing for immortality, a desire to go down in history. In that respect Lenin differs greatly from Trotsky, who is always peering into the mirror of time. With Lenin it is a longing to express his personality in action and to see the dream of his life realized.

"Lenin's personal ambitions are singularly modest. In appearance and manner he is quite simple and unremarkable. A nobleman by birth, he has a typical middle-class appearance. There are multitudes of just his type in the south-east of Russia and in the Urals. The only thing

<sup>1</sup> Arnold Toynbee in a broadcast talk, February 1st, 1933. See his series of talks in *The Listener* for an extremely suggestive interpretation of the present-day Russian revolution in terms of that inaugurated by Peter the Great.

<sup>2</sup> *Bolshevism in Retreat*, Chap. III, p. 51 *et seq.* M. Farbmann.

which is remarkable about his face is his prominent eyes, which, slanting though they are, are remarkably arresting. His vitality and determination are the man's real qualities. . . .

"Lenin's weakness, which is also his strength, consists in the fact that he is abnormally narrow in his outlook. Whole spheres of human activity, such as those of religion, æsthetics, and philosophy, have no interest for him. Even of sociology, there are many gaps in his interest. He is dominated by one preconceived idea, that of revolution and of the class-war. This concentration of will and intellect gives him a 'punch' and a driving power which, in the opinion of all who have heard him speak, render him an immensely effective platform orator.

"It is significant that everyone who listens to Lenin's speeches gets this impression of dominating physical force. Gorki says of him: 'Lenin speaks with an iron tongue, with the logic of an axe. His speech is a hammer which smashes relentlessly all obstacles.' A Frenchman once remarked: 'Lenin is a guillotine that thinks.' 'Lenin,' says another Russian, 'repeats and chews over his arguments, and bores you; but all the time he is welding you to him.'"

The Bolsheviks<sup>1</sup> did not launch the revolution in Russia. It began as a Socialist affair, a constitutional liberalizing of the autocratic administration.

The critical internal situation in Russia caused the Tsarist regime to reopen the Duma in November 1916. The Sturmer ministry, faced by the united opposition of the grand dukes, the Duma, and the populace, resigned. There followed three months of obscure intrigues during which the most notable event was the murder of Rasputin, an occurrence revealing the complete isolation of the Imperial Court. The Tsar at one time contemplated a

<sup>1</sup> The "Bolsheviks" were the majority in the Russian Marxist party wherein they were opposed by the "Mensheviks" (the minority) who were in favour of a democratic organization inside the revolutionary party. The Bolsheviks captured the party machine at a conference held in London in 1903.

military advance on Petrograd, but such a course was defeated by the opposition of the grand dukes and the generals, who requested the Duma to form a Provisional Government as a preliminary to the summoning of a constituent assembly. The Provisional Government—in which Kerensky was successively Minister of Justice, Minister of War and in July 1917, Prime Minister—was formed in March 1917. But by this time the capital was in the hands of the mob. On March 12th, following upon serious rioting in which the troops had fired on the mob, the Volnyhian Regiment of the Guard went over to the people and seized the arsenal.

On March 15th the Tsar, after being induced to abdicate in favour of the Grand Duke Michael, was put under arrest and sent to Siberia.

On April 15th Lenin arrived from Switzerland, the German general staff having made special arrangements for his transit across Germany in the hope that he would cause trouble on the home front in Russia. Trotsky returned from Canada a few days later.

Meanwhile the Provisional Government was endeavouring simultaneously to wage war on its frontiers and to formulate a constitution at home. "Long before the destruction of the Tsarist regime on March 12th, 1917, the army at the front had developed acute indications of disintegration. By January 1917 more than a million deserters were roaming about in the rear of the army."<sup>1</sup> The Constituent Assembly, elected on the basis of universal suffrage, consisted of a mass of peasants which was quite beyond the control of the small group of experienced politicians. The Assembly was aglow with fraternal sentiments (one of its acts was to abolish the death penalty in the midst of a world war!) and full of optimism. It debated everything, from the conduct of the War to the redistribution of agrarian land, thereby arousing the apprehensions of the "revolutionary" grand dukes and generals. Outside the walls of this enthusiastic debating society Lenin and Trotsky were setting to work on other lines. As against Kerensky's

<sup>1</sup> Kerensky in the *New York Times*, May 22nd, 1927.

sincere desire to honour Russia's obligations to her European Allies, Lenin preached an immediate termination of hostilities. Whilst the Constituent Assembly was trying to draw up measures for the redistribution of land, Lenin advanced the far more popular precept that the land should be seized forthwith by the peasants.

The doctrines of Lenin spread like wildfire. An abortive Bolshevik rising took place on July 17th, but failed owing to the prompt action of the Preobrazhensky Regiment. Trotsky was arrested and Lenin went into hiding.

Meanwhile, Kerensky was making an effort to continue the War. On July 1st, in his capacity of War Minister, and backed principally by the officers of the army and the Czech legion, he personally supervised the launching of an offensive on the south-western front. "I summon you not to a feast, but death," said Kerensky to the Russian army. The response of the troops was desertion *en masse*. As Lenin put it: "The army voted for peace with its legs." The advance was soon checked, and shortly afterwards came the news of the rout at Tarnopol. There followed a period in which the aristocratic party, apprehensive of the socialistic measures of the Assembly and strongly disapproving of the abolition of the death penalty, made an attempt under the leadership of Kornilov, then Commander-in-Chief, to seize control of the reins of government. He was defeated and the Red Guard was formed. Kerensky, forced to seek support from the forces of the Left, released the Bolshevik leaders from prison.

In November 1917, the Bolsheviks, led by Lenin and Trotsky, having secured control of the Red Guard and the Soviet (Council of Soldiers and Workmen) in St. Petersburg, deemed the time ripe for the overthrow of the Social Democrats and the inauguration of a real red revolution. They promised the people "PEACE! LAND! BREAD!" and put forward the slogan of "All Power to the Soviets."

The day after the Bolsheviks seized power (November 8th, 1917) they issued general peace proposals and suggested "an equitable and democratic peace . . . without annexations and without the payment of indemnities."

Apart from the personal defects of the leaders of the moderates, of whom only the name of Kerensky is still remembered, the position of any Socialist Party in Russia was hopeless because there was no foundation in the social structure of Russia upon which it could rest. The absence of a strong middle-class element made the position of any "liberal" government almost untenable. To succeed, it would have had to produce a strong personality and either secure a quick and overwhelming victory in the War or make peace without delay. In any case, the internal condition of Russia would have soon forced such a government to drop 95 per cent. of its liberalism. The Red Revolution was rapidly successful and Kerensky was forced to fly the country. There was very little fighting.

As soon as the Communists were in the saddle they set about making peace with Germany, and it is interesting to notice that helpless though they were in a military sense in negotiating with Germany at Brest-Litovsk, the Russians resisted to their utmost the expansionist demands of Germany. During the first stage of the Brest-Litovsk conference, which opened on December 22nd, the Bolsheviks behaved in a manner which was as baffling as it was irritating to the Germans. The Bolsheviks took every opportunity to spin out the proceedings whilst conducting a vigorous campaign of Communist propaganda. It was a battle of words, and Trotsky was usually victorious in these dialectical contests. At last, on February 10th, the Germans, who were desperately anxious to make peace in the East so as to release troops for use on the Western Front, broke off negotiations and began to invade Russia.

Then began a desperate argument in the Central Committee of the Communist Party. Should the German terms be accepted—and they were violent and severe, involving great losses of territory to Russia—or should an attempt be made to fight a revolutionary war? A majority, led by Lenin, advocated bowing to the inevitable. Lenin had said: "Germany is only pregnant with Revolution, but here in Russia a perfectly healthy child, the Socialist Republic, has already been born, and we may kill it if we

start a war." Bukharin led the opposition, but was out-voted. On March 1st the Russians returned to Brest-Litovsk and accepted the German terms. Before and during these negotiations the Russians had appealed for support to the Allies, and it must always remain a matter of opinion whether, if that cry for help had been answered, much strife and violence might not have been avoided. Then, if ever, was the chance to keep New Russia within the family of nations. There can be little doubt that at about this time numerous circumstances combined to make peace seem possible. Both the Allies and the Central Powers were in grave difficulties and sick with war-weariness. Moreover, such a peace would have been a peace between equals, in which case the subsequent history of *Our Own Times* would have been very different. But the chance was lost, and the Bolshevik appeal for a general peace conference evoked no response, except from Germany, although Trotsky had specifically asked the Allied representatives in Petrograd whether or not they wished to attend the peace conference which was to open at Brest-Litovsk.

On the other hand, the Allies were naturally suspicious of these overtures on the part of a Government determined at all costs to make peace with Germany as a prelude to fomenting a world revolution, which would necessarily mean the overthrow of the capitalist system in London, Paris and Rome. For, it cannot be too strongly insisted that at this time the Russian Communists regarded the seizure of power in Russia as only a first step in the bringing about of a world dictatorship of the proletariat expressed in a series of communist republics linked together by the steel backbone of the Communist Party and its organ, the then projected Third International. To the Russian Communists of 1918 this vision was as real and immediate as was the second coming of Our Lord to the early Christian Fathers.<sup>1</sup>

In 1918 the capitalist Allies decided upon a policy of no

<sup>1</sup> The invasion of Poland (see Chapter IX) was a military part of the crusade to spread Communism.

compromise with Communism, and Russia went into the wilderness for many years.<sup>1</sup> As we shall see in the second volume of this study, there were signs at the close of *Our Own Times* that the theoretically impossible compromise between Capitalism and Communism could, and would, be brought about.

Having—at a heavy price—rid themselves of the menace of Germany, the Russian Communists were free to embark upon their mission, which was of a twofold character: to spread world revolution, and to reorganize and consolidate the Russian base which was to be the centre for the dissemination of Communism. In 1919 Lenin founded the Third International to co-ordinate the activities of the Communist Party branches in foreign countries, and generally to issue instructions for the fomenting of the proletarian revolution.

In summary these instructions consist in taking every opportunity of detaching the working classes from the influence of the Socialist Party by outbidding the latter in promises of economic and political reforms. Another line of attack is to seduce the allegiance of the armed forces, since these are in the ultimate resort the chief support of capitalist society.

The first task of the Communist Party, *i.e.* the spread of world revolution, was soon found to be overshadowed by the imperative need of attending to the many difficulties in home affairs. A civil war was in full swing and the enemies of the new regime were being financed and assisted by the Allies. The extent of the help given by the capitalist states to the various "White Russian" factions varied considerably. France—much concerned for the amount of French capital which had been lent to Tsarist Russia—and Great Britain were the foremost supporters of the anti-Reds; Japan was ostensibly giving support to the Whites in Eastern Siberia; in fact she was hoping to take advantage of the confused situation in order to extend her influence

<sup>1</sup> An additional reason for Allied non-recognition of the Soviets was that the "White" Russians were still in control of the Ukraine and the Allies were most anxious to prevent the Germans mitigating the effects of the blockade by obtaining access to the wheat fields in this part of Russia.

in that part of the world. The "White Russian" campaigns against the Bolsheviks were conducted on three fronts. From Siberia by Koltchak; from the Black Sea area and the South by Generals Wrangel and Denikin, and by an Allied expedition from Archangel. The Allied support, chiefly in the form of money, munitions and staff, was weakened by acute jealousies between the Allies and by the fact that all the Allied forces were war-weary,<sup>1</sup> and public opinion at home did not want adventures in Russia. The White Russian leaders were hopelessly divided amongst themselves and were announcing aims which varied from a restoration of the Tsar<sup>2</sup> to the establishment of some kind of Social Democratic republic. In many cases the White Russian liberators during their invasion of "Red Russia" treated the population with a ferocity which equalled any frightfulness of which the Bolsheviks had been guilty. The Bolsheviks on the other hand were in control of such central administration of Russia as still existed, were crystal clear in their purpose, and were able to claim that in resisting the Whites they were defending Russia from the tools of foreign Powers. Most important of all, they had announced the abolition of private property and the nationalization of the land.<sup>3</sup> To the millions of land-hungry peasants this had been interpreted as sanction to appropriate the estates of their landlords, an action which they carried out with extraordinary speed. The doctrines of Karl Marx meant nothing to the peasants, but they did feel that the victory of the Whites would endanger their recently acquired ownership of land.

By 1921 the counter-revolutionary efforts had been defeated and the civil war was over. The various White generals had been either shot or fled the country; the Allies had decided to leave Russia to stew in her own juice and pinned their hopes on the policy of establishing a ring fence between Communist Russia and Capitalist Europe.<sup>4</sup>

<sup>1</sup> At Sevastopol French men-of-war hoisted the red flag and Allied commanders were in constant alarm, lest their forces be contaminated by Communism.

<sup>2</sup> Murdered with his family at Ekaterinburg in July 1918.

<sup>3</sup> Decree of November 8th, 1917.

<sup>4</sup> See Chapter IX.

Freed from the menace of external attack the way seemed clear to the Bolsheviks for the establishment of Communism in Russia when suddenly a formidable obstacle presented itself. The revolution, by causing land to pass into the hands of the peasants, had almost overnight transformed 80 per cent. of the population of Russia into *petit bourgeois* — small capitalists! Here was a fine state of affairs. No power on earth, not even Lenin, was capable of convincing the peasants of the need of immediately socializing their newly acquired land. The urban population might draw spiritual sustenance from the doctrines of Karl Marx, but for their material food they were dependent on the Russian agriculturist, who in 1921 produced practically the entire wealth of the country. In addition to this failure to impose Communism upon the new class of peasant capitalist, a hastily conceived attempt to introduce practical Communism into industrial life by workers' councils in control of factories, abolition of money, and the prohibition of all private trading, proved a dismal fiasco. The attempt to establish Communism with great rapidity by obliterating private property and socializing industry was doomed to failure. The peasants had no conception of Communism as such. They wanted more land and seized more land, much of which they were unable to work efficiently. When the government attempted to levy grain for the needs of the towns there were violent outbreaks and the area sown to wheat decreased sharply. In the meantime the output of factories was dwindling away, and famine on an enormous scale ensued, a famine made more terrible by the collapse of an already half-wrecked and worn-out transport system. Something had to be done, and quickly.

### 3. *N.E.P.*

It is a proof of the genius of Lenin that he did what was necessary, what was inevitable. He rode roughshod over the opposition inside "The Party," even though his decision was eventually to mean (1927-29) the loss and exile of the military genius of Trotsky, who was passionately attached

to the ideals of world revolution. In 1921 Lenin announced the New Economic Policy. Hard facts always outweighed theoretical considerations of political philosophy in the brain of the Secretary of the Communist Party. The hardest of all these facts, and it was both political and economic, was the fact that though the million and a half zealots of the Communist Party were in control of Russia, 80 per cent. of their subjects had become land-owning capitalists. Where was the proletariat declared essential by Karl Marx? It was only to be found in the towns, and without the product of the peasant the towns would become a howling wilderness, and then farewell to the dictatorship of the Party. The materialistic conception of history had been turned upside down. Ideas and Power had preceded economic form instead of (as prophesied by Marx) succeeding them. The only way out was to socialize the peasant, but this was bound to be a long process even if pressure and compulsion were applied to the victim up to the extreme limit of safety. In the meanwhile breathing-space was needed whilst plans were being made for the purpose of creating an economic social structure in Russia which would be a suitable foundation for Communistic practice. The New Economic Policy gave breathing-space. It was a definite concession to those elements which Communism intended to eradicate. Instead of grain levies the peasants were to pay their taxes in kind, but that duty performed, they were to be free to sell their produce as they thought best. In the towns private dealers were to be allowed side by side with the industries of the state. The class war was to be relaxed, and private enterprise invited to play its part in restoring the situation.

It would be unfair to the reputation of Lenin to say that he suddenly changed his mind. As early as 1918 he had been conscious of the dangerous position that was arising, though the march of events seemed to prevent anything being done. He defended the N.E.P. on the ground of expediency. It was a retreat, but it must be a disciplined retreat with a view to securing advance later on. "When an army," he said, "is retreating discipline must be a

hundred times greater than during an offensive, for then all ranks compete in pushing forward. But if during a retreat everyone were to begin to compete in pushing backward that would be ruin, inevitable and immediate. . . .” “The Communist,” he said, “has much to learn. We must understand this simple thing—that in a new and unusually difficult task we must learn to begin anew again and again. If one start has led you into a blind alley, begin again, re-do the work ten times; but attain your end, don’t be self-important, don’t pride yourself on being a Communist and no such thing as that non-party commercial clerk; he may be a White (there is even no doubt he is a White), but he knows his job . . . and you do not.”<sup>1</sup>

The New Economic Policy was not an immediate success. But in time its effects were far-reaching. It did give Russia an opportunity to restore her productive resources, and it was the only remedy for a disastrous situation. Unpopular as it was bound to prove amongst all good Communists, it represented a necessary compromise. As it was, the forces of communal effort and of private enterprise were both harnessed to the task of restoring economic activity.

Certain aspects of industry naturally enough came within the province of the state, and consequently the development of the heavy industries was left in charge of state trusts. But in two respects private enterprise came to the fore at once. In the villages the peasants were encouraged to do their utmost to increase production by being left with some of the reward of their labour. As a result there grew up a class of kulaks, peasants, richer and more successful than their neighbours. Thus in the villages a division between richer and poorer once more began to assert itself.

In the towns the province in which private enterprise flourished most was that of the dealer. To balance the kulaks, there came the “Nepmen,” who made their money by being merchants and retailers on a small scale. Here, too, class distinctions were once more coming into evidence,

<sup>1</sup> Quoted by D. S. Mirski, *Lenin*, pp. 184-86.

a source of dismay to the good Communist, but a useful force in promoting economic activity. Revival was taking place though, as part of its price, Communist ideals were to some extent receding.

On January 21st, 1924, Lenin died, and Russia was left without its great leader. During his lifetime he had been a momentous force; after his death he was to exercise the power of a departed prophet on those that came after him and to become the personification of all that was good and wise in the Revolution which he had helped to bring about.

There seems little doubt that he fully deserves his hold on the imagination of the New Russia which he did so much to bring into the world. He was a realist and a doer at a time when talk was common and thought-out action very rare. His personality was such that he had been able to unite the Revolution under his leadership at a critical period. Always single-minded in his ideas, he had worked for the dictatorship of the proletariat, and had brought that dictatorship into being. He held fast to his principles and never lost his chances. He knew his destiny.

And yet it was his supreme merit that his mind was flexible. N.E.P. must have been a bitter pill to swallow for all those who looked for quick progress towards a Communist ideal; but Lenin—unyielding as he was by temperament—saw the dangers that would follow from any attempt to mistake the shadow for the substance. Had there been no civil war the period of recuperation might have begun sooner; as it was, as soon as the War days were over, he threw all his weight in favour of relaxing the restrictions on private trade both in the towns and throughout the countryside. More corn and more goods was the result. And at the same time he was always insisting on the importance of developing heavy industry and especially of electrification.<sup>1</sup> He was the creator of Russian planning as well as of N.E.P. He was one of the great men of *Our Own Times*.

There is perhaps one flaw to be found in his realism. Brought up in the Marxian tradition, he seems to have thought, to begin with, of revolution in terms of world

<sup>1</sup> Communism = the Soviets and electrification (LENIN).

revolution and not of Russian revolution.<sup>1</sup> He might have been able to stop Trotsky's unwise invasion of Poland. He might have succeeded in bringing the Civil War to an earlier end had he been willing to persuade the Great Powers that he was primarily concerned with revolution in Russia and not with revolution in the world at large. Foreign capital would have been of enormous assistance to Russia at that stage. But he was unable to arrange a *modus vivendi* with the other Powers—and in part at least this must have been due to his belief in the imminence of world revolution. In this, as in certain other respects, he was not unlike St. Paul.

Agreements of sorts were reached with the other Great Powers after Lenin's death. On February 2nd, 1924, Great Britain recognized the U.S.S.R.; by the beginning of 1925, all important countries, with the exception of that citadel of private enterprise and prosperity, the United States of America, had recognized the new state.<sup>2</sup>

Thus by 1926 the Revolution had established itself. Economic activity had been restored to a standard reasonable for Russia but hardly so for any Western European country. The currency—there had been bad inflation, though it had never reached the heights achieved in Germany—had been restored without any foreign assistance. And in 1926 the plans for development in the heavy industries were going ahead; it is symbolic that on May 16th, the day on which the construction of the first tractor works was begun in Leningrad, a hydro-electric station was opened in Erivan.

But two glaring contrasts remained. Within Russia private traders existed side by side with enterprises of the state, and although these "Nepmen" only existed on sufferance they served to emphasize class distinctions in a society committed to becoming classless; and in the world

<sup>1</sup> A complete victory of a Socialist revolution is unthinkable in any one country. It requires at least the co-operation of several advanced countries, and Russia is not one of them (LENIN).

<sup>2</sup> By the beginning of 1924 six European Powers had recognized Russia; at the end of the year this number was fifteen and included all the European Great Powers.

as a whole, Communist Russia existed by the side of the capitalist states.

What of World Revolution? This dream was steadily becoming more dreamlike and intangible as conditions in Europe became more stable. More and more when the activities of the Third International interfered with the plans of the Soviet Government (especially their plans for trade with capitalist Powers), it was the former which were thrown on the scrap-heap. By 1925-26—the end of the period we are discussing, when Stalin had succeeded Lenin as Secretary of the Party—it was clear that whilst not abandoning in principle their duty of promoting the class war and Communism in all parts of the world by Third International propaganda,<sup>1</sup> the main thrust of all the efforts and activities of those who controlled the destinies of Russia was directed towards the reorganization on the home front. They hoped that by applying under collective control the methods of mass production to the development of Russia's agricultural and mineral resources they would succeed in time in creating a model Socialist state. They hoped that the contrast between the prosperity of such a state and the poverty prevalent in the richest of capitalist states would be the most effective form of Socialist propaganda.<sup>2</sup>

The tactics selected for the fulfilment of these objectives involved planning on an enormous and unprecedented scale, and the story of Russia during *Our Own Times* now becomes the story of this remarkable experiment in the state control of economic life. The continuation of this story will be found in Volume II, and we shall conclude this first part of our account of New Russia with a note on the Soviet system of government.

<sup>1</sup> *E.g.* Bolshevik activities in China, 1926, under Borodin, a man of genius.

<sup>2</sup> Trotsky was the leader of the Left Wing Communists, who declared that this policy was a damnable retreat from the proper Communist policy of world revolution, and would result in the ultimate failure of Marxism in Russia. A sharp struggle within the party resulted in a victory for Stalin and the expulsion from Russia of Trotsky. Perhaps if there is a Russo-Japanese war in 1940 Trotsky will be recalled to direct the Red Army he created with amazing organizing skill in under three years.

#### 4. *The Soviet System*

The Russian political organization is based on a devolution of powers combined with a dictatorship of the faithful.

“Since the time of the formation of the Soviet Republics, the states of the world have divided into two camps: the camp of Capitalism and the camp of Socialism.

“There—in the camp of Capitalism—are national enmity and inequality, colonial slavery and chauvinism, national oppression and pogroms, imperialistic brutalities and wars.

“Here—in the camp of Socialism—are mutual confidence and peace, national freedom and equality, a dwelling together in peace and the brotherly collaboration of peoples.”

This quotation is from the first section of the constitution, passed at a meeting of the Central Executive Committee of the Union of Socialist Soviet Republics on July 6th, 1923. It lays down that Russia is a federal state in which the most important powers, such as foreign policy, foreign trade, defence, and economic planning are exercised by the Central Government. The local governments have considerable autonomy in such matters as social services. “Each united republic retains the right of free withdrawal from the Union.”

The supreme organ of authority is the Congress of Soviets, and between meetings of the Congress, power is exercised by the Central Executive Committee. The Congress of Soviets is composed of representatives of town and township Soviets on the basis of one Deputy for each 25,000 of the population. The Presidium of the Central Executive Committee of the U.S.S.R. is the supreme legislative, executive and administrative organ between sessions of the Central Executive Committee. Based on this organization are various Councils and People's Commissariats which correspond to the ministries in capital states.

Such a constitution seems most unwieldy, but in fact it

gains all its power from the Communist Party which in reality is the driving force behind modern Russia. The Communist Party is composed of a picked body of people. Its total membership, including candidates, was 1,852,090 on January 1st, 1930. Periodical purges are carried out to ensure that undesirable members and those who have not justified themselves do not remain in the Party. Over 100,000 persons were expelled in the purge of 1930. It is noteworthy that the peasants, although they form the bulk of the population in Russia, form only a small proportion of the membership of the Party. Less than 15 per cent. are women. There is great freedom of discussion and criticism within "The Party" when a policy is being selected, but once "the general line" or "particular line" has been settled, complete obedience to the policy is essential. Members of the Party are recruited from the Young Communist League, which in 1934 had a membership of about 6,000,000.

The members of the Party hold all responsible offices and control the political situation throughout the Union. Stalin holds his present position (1934) because he is General Secretary of the Central Committee of the Communist Party. Thus is the dictatorship of the proletariat achieved and, for certain purposes, an apparently loose and unwieldy political organization is made exceedingly effective.

The Red Army is responsible for the external defence of the Revolution, internal security is in the hands of the O.G.P.U. (the State Political Department). This formidable body is All-Russian in its powers and is largely a secret police used for detecting counter-revolutionary activities and generally controlling the internal political situation.

In the last resort the Communist Party is in control in Russia and doing what it is doing because the majority of Russians, and this is specially true of the younger generation, want it to be there and want it to do what it is doing. Two million people cannot dominate 166 millions for a decade against the will of this great majority. As we shall see in Volume II, both the external and internal policies of the Bolsheviks have been limited and conditioned in

practice, on the one hand by the need of Socialist Russia for commercial and political relationships with the capitalist states in the world of which she is a part; on the other by the need of not over-antagonizing the peasant. During the first post-War decade the developments in Russia aroused furious controversy in capitalist countries. Some saw in Russia a new heaven on an old earth, others believed Soviet Russia to be hell incarnate. News from Russia was enveloped in a cloud of prejudice and propaganda for and against the Bolshevik regime. Many years will have to pass before these matters can be discussed with the detachment proper to the consideration of revolutionary changes in the affairs of man.

## CHAPTER VII

### FASCIST ITALY

“ Conjure with 'em,  
' Brutus ' will start a spirit as soon as ' Cæsar.'  
Now, in the name of all the gods at once,  
Upon what meat doth this our Cæsar feed,  
That he is grown so great? ”

*Julius Cæsar*, Act I, Sc. ii.

#### 1. *The Background*

THE rise to power in Italy of Benito Mussolini at the head of the Fascist Party claims attention in a review of *Our Own Times*, partly as the record of a nation's promotion from the ranks of the so-called second-class Powers, partly in regard to such influence as this event may have had in world affairs.

The background against which Fascism stands must be briefly described. Italy was first united as a kingdom under the House of Savoy in 1861,<sup>1</sup> after an epic struggle during which Cavour, Mazzini and Garibaldi won their laurels as national heroes. Apparently, the magnificent labours of this period utterly exhausted the energies of the whole nation, for the next half-century is a lamentable story of failure. At home, attempts at industrial expansion, thwarted by ignorance, led to poverty and discontent, while politicians bickered in the lobbies until the nation was wholly out of touch with its so-called Parliament; abroad, humiliating defeats, inflicted, one by Austria and the other—a rather more discreditable affair—by Abyssinia, combined to create a national inferiority complex which meant that in the general scramble for colonies and prestige in the last years of the nineteenth century, no one paid any attention to Italy's claims. France took Tunis from under her nose in

<sup>1</sup> Venetia and Rome were not yet Italian at that date.

1881, Austria calmly annexed Bosnia and Herzegovina on the Adriatic, and in the nineteenth-century struggle between colonizing Powers in darkest Africa Italy had to be content with two deserts, Somaliland and Eritrea.

This non-success in the fields of Imperialism was in part due to lack of leadership, and is scarcely to be wondered at when one reads that Depretis, premier and arbiter of Italy's destinies for eleven years (1876-87), frankly acknowledged: "When I see an international situation on the horizon, I open my umbrella and wait till it has passed." It was in this mood that Italy, for the sake of German protection, entered in 1882 into the Triple Alliance (involving rather distasteful contact with her enemy Austria) of which, in 1914, she was one of the three partners, and quite the most unreliable one.

After a period of bargaining (1914-15), she was bribed to espouse the cause of the Allies by the Secret Treaty of London, in which she was promised colonies in Africa and Asia Minor and the return of "Italia Irredenta" round Trieste and the Trentino.

At the Peace Conference the victorious Powers resumed their traditional habit of treating Italy as the jackal at the feast. Embarrassed in their intention to carry out the Treaty of London by the national aspirations of Greater Serbia, by the Wilsonian doctrine and by their suspicion that only they were fit to bear the white man's burden in Africa, Great Britain and France brushed aside Signor Orlando's demands in return for services rendered.<sup>1</sup>

In the end the Italian delegation returned from Paris empty-handed except for the part of Austria best known as the Dolomites and a slice of territory—much smaller than Italy desired—round Trieste, but not one square inch of German territory in Africa! This failure to secure a just reward for the national sacrifices made—632,000 killed, two million wounded—made the Liberal Government very unpopular. Moreover, the economic situation was serious. The currency had fallen 70 per cent. in face value; the cost of living was rising rapidly; the budget deficit was in the

<sup>1</sup> See Chapter IV.

region of astronomical figures. The resultant discontent was reflected in the parliamentary elections of 1919, when the Socialists doubled their numbers and won over a hundred seats. The War had brought nothing but disaster and had become a memory so shameful that when an Italian citizen evolved the idea of a national funeral for an "Unknown Soldier," the Prime Minister, Signor Nitti, denounced it as an "inglorious reminder" and refused to permit the ceremony.

Meanwhile sporadic revolutionary activity was taking place all over the country; strikes were of daily occurrence, often accompanied by violence and bloodshed, and a succession of hopelessly weak ministries in Rome proved utterly incapable of checking the growing disorder and disintegration of the so-called democratic and parliamentary state. In the autumn of 1920 the Socialists and Communists had the game in their hands; they seized the factories and, for a time, it appeared likely that a dictatorship of the proletariat would make of Italy the Latin equivalent of Russia. But, lacking a leader, the Socialist groups were in not two but a dozen minds as to when and how to grasp power; they let the chance slip and allowed the Lenin of Italy to shape for himself a different destiny.

## 2. *The Man*

Benito Mussolini was born in 1883, the son of a Socialist blacksmith in Northern Italy. He became a teacher at the age of eighteen, tired of this and went to Switzerland for further education, wandered on foot from there to Paris, was expelled as a vagrant and, returning to Italy, was arrested for his dangerous socialistic and revolutionary activities when he incited the workers of Forlì to tear up the railway line in order to prevent troop trains from supplying soldiers for the Libyan War (1911).

Later, we find him in the Trentino editing the Italian Socialist newspaper *Avanti* and writing leading articles warning the workers to be ready for a world revolution. The beginnings of his national aspirations date from this

period under Austrian rule in *Italia Irredenta*, for he was deported over the frontier by the police of the Emperor Francis Joseph on account of his Italian sentiments. Seeing in the War the one chance of "arousing the Italian people from the lethargy into which the Liberal Democratic Government has allowed it to drift," he advocated intervention on the side of the Allies, was thereupon expelled from the Socialist Party, lost his job on *Avanti*, and founded a paper called *Il Popolo d'Italia*, Socialist but interventionist. He went to the War and returned therefrom as a wounded soldier, exempted from service, in order to carry on his Socialist and journalistic activities.

### 3. *The Occasion*

A more suitable time and place for the rise of a national leader than Italy in the years 1920-22 could scarcely be conceived. The Government continued to prove hopelessly incompetent; the Socialists were too timid to seize power; anarchy and terrorism were spreading all over the country, the fate of Italian credit, industry and prestige appeared to be sealed. This situation imparted enormous zest to the various private counter-revolutionary organizations formed to combat the disorders. One of these was the *Fascio di Combattimento* (Union of ex-Service Men), an organization founded by Mussolini, which had begun life early in 1919 with a very radical programme as regards domestic affairs. Its budding nationalism increased as the fruits of victory were wasted at home and at Paris, but its leader professed Socialism and for some time it was doubtful which way the cat would jump. The incompetence of the Socialists in the 1920 strike settled the day; the Fascists remained neutral, and when the workers rather lamely evacuated the 600 factories they had seized, Mussolini, now financed by many big industrialists, threw in his influence on the side of the anti-Communist and anti-Socialist front. In the same year his nationalistic tendencies were reinforced and his numbers—still negligible—were strengthened by the return of D'Annunzio's braves from

their adventure in Fiume.<sup>1</sup> These persons, overflowing with the nationalist emotion with which the warrior-poet was inspired, contributed to Fascism the insignia and terminology of ancient Rome; meanwhile Mussolini had clothed his followers in the black shirt of the Arditi assault battalions who had won fame in the War.

For two years well-drilled Fascist *squadre* waged war on the anarchist factions all over the country. They advanced to the attack with castor oil, clubs and guns. In November 1921 the organization became a political party. It held its first congress immediately after the ceremony of the Unknown Soldier, which the country, in its new nationalistic mood, was now proud to institute. During the summer of 1922 Fascists were forcibly seizing the offices of local government in the provinces; the *squadre* were well organized, and usually handed over the reins of office to competent and well-chosen local leaders. The final test of the new party came with the general strike of August 1922; the workers were unable to prevent the Fascists and the volunteers who lent them a hand from operating all services and generally controlling the administration of the country.

Nevertheless the movement, having started avowedly Socialist, was still suspect of being Republican, and many admirers of the efficiency of its organization hung back from joining the party. Nothing daunted, Mussolini, who was now claiming, on rather doubtful grounds, that the Fascists had saved Italy from Bolshevism,<sup>2</sup> declared in September that the King of Italy had a place in the new dispensation appearing over the horizon, making it clear that Fascism was not a revolution but a new spirit to reanimate existing institutions. In October Mussolini showed his hand still further, stating that perhaps democracy had played its part and that some other political force more powerful and better adapted to the needs of the country

<sup>1</sup> See p. 212.

<sup>2</sup> The real reasons were: (a) That the Socialists were so badly led; (b) that Don Sturzo and the Catholic Party kept the peasants together as a Roman Catholic bloc.

might arise. He followed up this statement with a declaration at the annual Fascist Congress at Naples that if the Government were not handed over to the Fascists, the latter would advance on Rome and seize power.

By the end of October 1922 all was ready for the coup, and the Fascist *squadre* in four orderly columns carried out the famous march on Rome. The Cabinet, incompetent as ever, proposed martial law, but the King, believing that this meant civil war, refused the royal consent, and with scarcely an act of violence the Black Shirts occupied the city on October 30th, 1922. On the same day the King sent for Mussolini; the formation of the first Fascist Cabinet was only a matter of a few hours, and the *squadre* received orders to evacuate Rome at once, which they did after marching past the Quirinal as an act of homage to the King.

There was no resistance from the deputies; the Italian parliamentary system, invariably out of touch with the country, was in any case suffering from senile decay, and though the Chamber predominantly followed the old Premier, Giolitti, it accepted with scarcely a murmur the combined Cabinet of Fascists and Nationalists which now took over the government of the country.

Mussolini spent the next four years consolidating the Fascist hold. The internal state of Italy was still serious. The budget deficit amounted to six milliards of lire as compared with one hundred and fifty million in the last year of the War; export trade had dropped abnormally, the parliamentary system was effete and the local government offices were sinks of corruption and graft. His methods of reform were autocratic; he abolished the old form of parliament; he substituted local Fascist podestàs, nominated by the head of the government, for the formerly elected municipal authorities, and took in hand the spring cleaning of Italy from the streets upwards. This was a period of violence during which anti-Fascists were imprisoned, exiled or made their way over glaciers reputed too impassable to be worth guarding, into Switzerland or France—in short, a period whose type was to become

better known and more recognizable in 1934 than it was in 1923—during which all the symptoms characteristic of the institution of a Party and personal dictatorship were manifest.

Mussolini's chief setback during this period followed the murder of the Socialist leader Matteotti, a man who had dared to produce a book exposing the Fascist terror. This courageous person was kidnapped by Fascists one evening and his body was later found buried at a lonely spot about twenty kilometres from Rome. A political crime such as this, in which high officials of the Fascist Party were involved, obviously did the cause no good. As Mussolini himself wrote:<sup>1</sup> "This violence does not facilitate the work of the Government, but compromises it." The repercussions of this murder influenced Mussolini in his determination to control the Party before it controlled him. A sharp internal struggle took place, culminating in victory for the Duce when he forced Farinacci—a noted extremist—to resign the Secretary-Generalship of the Party. By degrees Mussolini carried his supremacy even further, taking more and more ministerial offices under his direct control, until at one time he held no less than eight offices.

A competent man enjoying power as absolute as this can turn most situations to his account; the anti-Fascist campaign following the murder of Matteotti gave a pretext for Press censorship; more often than not, the gods seemed to be playing on his side, as, for instance, when the tremendous fall in the lira in 1924 was followed in 1925 by a bumper harvest such as Italy had not known for years, or when in 1926 and 1927 no less than four bullets, intended to murder him, missed their mark and provided an admirable reason for fresh Press censorship and for natural manifestations of Fascist loyalty in the rejoicing over these escapes. It was during this period that Mussolini inaugurated a number of economic measures of a deflationary character which led to a surplus in the budget for 1924-25. He also negotiated War debts<sup>2</sup> agreements with the U.S.A. and

<sup>1</sup> *Gerarchia*, October 1925.

<sup>2</sup> See p. 232 *et seq.*

Great Britain which enabled him to stabilize the lira and return to the gold standard at the end of 1927.

With the consolidation of his personal power and position, Mussolini turned his attention to providing the new Italian state with a constitutional and social backbone and an organized labour system, and to ensuring that the various joints of both were members of the Fascist Party. In order to ensure that the Fascist way of thought should permeate the nation from the cradle up, two youth organizations called the *Balilla*—for boys under fourteen—and the *Avanguardia*—fourteen to eighteen years—were established. In their ranks the younger generation were drilled, physically and morally, in the duties of citizenship and patriotism; in 1926 membership of the Party was closed except by recruitment from *Avanguardisti*, and in 1928 all non-Fascist youth organizations were suppressed.

#### 4. *The Doctrine*

A few words in explanation of the Fascist philosophy which has, by these means, come to dominate Italy is necessary here. Since it began as outraged patriotism, intent on giving to Italy that self-confidence at home and prestige abroad necessary to a Great Power, national pride can be taken as its corner-stone. Fascism is therefore opposed to Socialism, which, with its slogan "Workers of the world, unite," places class loyalty above national loyalty. It is also opposed to Socialism and Communism in its conception of society. Fascism demands no radical change in the main structure of the capitalist state: each class, employer or employed, has its assigned function; all men are not necessarily equal; each individual differs from every other; therefore the rights of private property must be respected and the stimulus of private initiative maintained. Mix these two ingredients, and the result is a new conception of the responsibilities of property and citizenship; the owner of property or the worker earning his daily bread must, since the state comes first, take a long view in which his petty desires are transcended

by the needs of "the state." As Mussolini explained through his Minister for Justice, Professor Rocco, in a famous speech defining Fascism, delivered at Perugia in 1928: "The nation is not merely the sum-total of living individuals, nor the instrument of parties for their own ends, but an organism comprising the unlimited series of generations of which individuals are merely transient elements." Obviously no single one of these "transient elements" can be expected to judge, in this complex world, which of the courses open to him will be best for the continuity of the state, hence—and it is here that Fascism departs so radically from Liberalism and *laissez-faire*—the state, being the most omniscient body available, must intervene and direct proceedings wherever this is essential to the welfare of the nation. This intervention is accepted without question, thanks to the degree of discipline demanded by the Fascist system and to the exalted state of mind which extreme nationalism can bring into being.

By the introduction of this philosophy Fascism claims to have eliminated the drawbacks both of capitalism, under which the two classes—employers and employed—are irreconcilably opposed, and Socialism, which does not take human nature into account and does not realize that the personal interests of the individual are the most powerful stimulus to human activity. Fascism necessarily involves a dictatorship, since some supreme authority must, in the last resort, judge what is good and what is bad for the future of the state. The state must have a mouth-piece. Further, it can admit of no opposition; once the dictator is questioned the structure crumbles, hence the suppression of criticism and the censorship of the Press. The opponents of these theories urge that differences between employers and workers are not removed, but merely dominated and so silenced; that the system is dangerous because it provides no weapon against the misjudgments to which any dictator must be prone; in a word, that it places a falsely high value on the goods in its shop window and hopes that no one will investigate the back of the shop.

5. *The Façade*

In his New Year speech of 1925, Mussolini had made it quite clear that the Italian state must be *fascistizzare*, and in 1928 the Party—there was now only one—became part of the Italian constitution, and its position in the national life was legalized.

Politically it works from the top down; at the apex of the pyramid is *Il Duce*—the Leader—presiding over the Fascist Grand Council consisting of his ministers, whom he chooses, and various persons whom he nominates for their talent or as representatives of given public bodies. This council, originally merely a Party committee, was, by the law of September 19th, 1928 given, in effect, complete control over the whole country; it has the last word on every subject from the succession to the throne and the appointment of a new Duce to the powers of the Senate and Chamber.

Mussolini, on his advent to power, found a Chamber elected by proportional representation. Anxious to ensure a Fascist majority in any new Chamber, he changed this in 1923 to a system whereby the Party polling the most votes acquired two-thirds of the seats available, the remaining third being divided in proportion to the remaining poll. It was to this system that Matteotti objected so violently and, drawing in his horns at the sound of the outcry following the murder, Mussolini reinstated single-member constituencies. By 1928 Fascism was secure and the following system was adopted. Representation is by vocation, not locality; each of the thirteen syndicates nominates a list of the persons they would like to see in parliament. From these lists, which it can modify at will, the Fascist Grand Council chooses 400 names. This selected list is submitted to the Italian people for acceptance or rejection *as a whole*; if rejected—a miracle which has not yet occurred—new lists would be drawn up.

Politically, the dictatorship is absolute. Economically, Fascism, with its emphasis on the liberty of the individual, makes some claim to run matters from the bottom upwards.

The organization which Mussolini has evolved to run the working life of the country is known as the Corporative or sometimes the Corporate State.

To gain any conception of the way this complicated mechanism is alleged to work, the golden axiom that the future of the state comes first must be the watchword. At the base of the corporative triangle we find those "transient elements," the employer and the worker, "free as air" to band together each in their own syndicates. Any resemblance which these Fascist syndicates bear to our Trades Unions is purely superficial, for, whereas the latter provide a bargain counter over which worker and employer can haggle, the former preclude all haggling—strikes and lock-outs—since both parties are always assumed to be at one in their common object of promoting the interests of the state.

Moving on towards the apex, the next slice of the triangle consists of the National Confederations. They number thirteen. There is a group of employers' syndicates and a group of workers' syndicates classified as Agriculture, Commerce, Finance, Industry, Land Transport and Sea and Air Transport. These account for twelve confederations or groups of syndicates. The thirteenth confederation represents "Artistic and Professional Workers," in which branch of activity there is no occasion to set up groups of employers' and workers' syndicates, since the members of the Artistic and Professional syndicates, persons such as artists, writers, etc., are neither "workers" nor "employers."

Next in the hierarchy come seven Corporations, in which workers and employers in each pair of Confederations are grouped into one. Representatives from these go to form the great National Council of Corporations—set up on March 20th, 1930, with power to regulate labour conditions at home and to give guidance in the matter of all commercial treaties abroad.

At the apex of the triangle is Mussolini, President of the National Council of Corporations, interlocking in his person the political and economic life of the state. In his own words: "The National Council of Corporations is

to Italian National Economy what the General Staff is to an army—the thinking brain which plans and co-ordinates. Fascist syndicalism, through the collaboration of all classes, leads to the Corporation. All such collaboration should be systematic and harmonious, preserving private property but insisting on its social function, respecting private initiative, but subjecting it to the life and economic progress of the nation.”

The Magna Carta in which all this is legalized is called the *Labour Charter*, published in 1927 and distributed in October 1928 to every employer and worker in Italy. It contains thirty rules in which are set forth the relations between worker and state; worker and employer; worker, employer and state.

Strikes and lock-outs being illegal, disputes between employers and workers are taken to the *Labour Courts*. These courts are identical in procedure and status with an ordinary court of appeal, except that two experts, chosen as having no personal interest in either Party, assist the presiding judge. The penalty for failure to comply with the decision is imprisonment or a fine.

Fascists, whatever the colour of their shirt, for Fascism figures on the list of Italian exports, argue that state interference in the doings of the lower part of the triangle is rare, that it is rendered unnecessary by the will to exercise self-discipline inbred in all good Fascists and that, therefore, all Fascists are free. To most British observers it appears to resemble the freedom of a tram as opposed to that of an omnibus.

## 6. *The Concordat*

In conclusion, it will be convenient to mention here an event which in many respects ranked as one of the outstanding achievements of the Fascist regime during “Our Own Times,” and that is the solution of the Roman question, that long-standing quarrel with the Pope which had perplexed every Italian Government since 1871. When in that year the withdrawal of French support from the

Holy See enabled Victor Emmanuel to take possession of the Vatican State, the Pope, excommunicating all those who had committed the sacrilegious action of invading the Holy See, shut himself up in the Vatican and refused to enter into any relations whatsoever with the new Kingdom of Italy. Neither side would give way; the problem was apparently insoluble and it took two such large-minded men as Mussolini and His Holiness Pope Pius XI to open negotiations. They were long and delicate, but the declaration of mutual recognition, called the Concordat, was signed on February 11th, 1929, when amid scenes of tremendous excitement, with the yellow and white papal colours flying alongside the tricolour and the fasces, the Pope, for the first time for nearly sixty years, gave the famous blessing "Urbi et Orbi" from the outer loggia of St. Peter's. By the Concordat the Vatican City—a small section of Rome—was recognized as "neutral and inviolable territory" by the Kingdom of Italy, which, in order to render it a workable entity, placed certain public services at its disposal—a railway station, a broadcasting station and the dignity of its own postage stamps. The Vatican City thus once more became a sovereign state, acknowledging the Pope as its spiritual and temporal sovereign and represented with full diplomatic honours abroad; in return, the Pope recognized the Kingdom of Italy "under the dynasty of Savoy with Rome as the capital," and both parties agreed that the "Roman question," to quote the language of the Concordat, is "definitely and irrevocably settled."

### *7. Conclusion*

Here we shall leave the story of Fascist Italy with Mussolini firmly established and busily engaged in consolidating the position of authority which he and his adherents had created rather than seized. From 1926 to about 1933 the Fascist regime in Italy made considerable progress with the reorganization of the internal life of the country, the extirpation of brigandage in Sicily, the increase in agricultural

production, especially wheat, the improvement of communications and the restoration of ancient monuments in Rome. It was a progress which would have been notable in Italy at any time, but is especially significant when contrasted with the stagnation of the twenty to thirty years before the War.

But, as we shall see in Volume II, the position of Italy in 1934 was serious. The Corporative State, still a paper organization, had not prevented a growing deterioration in the economic situation, and there were signs that in order to divert attention from the troubles at home Mussolini had determined to resume that somewhat aggressive attitude in foreign politics indulged in by the Fascists during the period 1919-20.

## CHAPTER VIII

### MODERN TURKEY <sup>1</sup>

“ When thieves fall out, honest men come into their own.”—Old Proverb.

“ Get a coffin ready and the man will not die.”—Chinese Saying.

#### I. *The Nationalist Movement*

IF much seemed doubtful in 1919, one fact seemed certain; it was that of all the “ enemy ” Powers the Turkish Empire was the most thoroughly conquered. Not only her provinces, but also her capital of Constantinople, to reach and defend which city so many sacrifices had been made at Gallipoli, were in Allied occupation, whilst the territorial possessions of the traditional sick man of Europe had for long been allocated amongst the victors. In summary, these arrangements were as follows :

For over a century Russian Near Eastern policy had been directed towards securing Constantinople and the control of the Straits. Although it had been a constant preoccupation of European policy to thwart this Russian ambition, the stress of the Great War caused France and Great Britain to agree to the inclusion of the Russian claims in the eventual peace settlement (Constantinople Agreement of March 18th, 1915). In the Secret Treaty of London (April 26th, 1915) Italy staked out claims in Asia Minor as part of the price of her entry into the War. In 1916 Great Britain discovered that the promises she had made to the Sherif of Mecca in return for the support of his Arabs against the Turks conflicted with the French designs on the Turkish province of Syria. The secret “ Sykes-Picot ” agreement (May 16th, 1916) provided for the amputation of the Arab provinces from the Ottoman Empire and gave slices of Asia Minor to France and Russia. Italy was kept

<sup>1</sup> See Introduction, p. 3.

in ignorance of this arrangement, but it came to her ears in 1917 and she at once demanded more of Asia Minor. Fortunately Asia Minor is a big place and Italy's claims were admitted by the Secret Agreement of St. Jean de Maurienne (April 17th, 1917). Unfortunately, the Russian revolution not only disturbed the balance of the above arrangements, but also revealed in the publication by the Bolsheviks of the secret treaties, scandalous evidence of the real objectives of the Allied governments who had been fighting for the principles of liberty and democracy. However, any difficulties in connection with the post-War settlement of the Turkish question seemed likely to arise from inter-Allied differences of opinion rather than from the side of Turkey. As an example of the singular aptitude with which the Turkey of the past had been capable of dividing "friends," mention may be made of the fact that in 1919 two British government departments were patrons of a war in Arabia. The Foreign Office was backing and financing King Hussein, Sherif of Mecca, whilst the India Office was performing a similar office for Ibn Saud, the leader of the fanatical Wahabis. Both these potentates had been encouraged to throw off the Turkish yoke and participate in the war to end war. Unfortunately, they were rivals for the over-lordship of Arabia. A third British government department—the Treasury—stopped British participation in this war by cutting off supplies to both "backers."

To return to the Turkish question. The situation was not so simple as it seemed. The Allies were war-weary, their armies were clamouring to be demobilized; grave questions concerning Germany occupied attention; the Bolsheviks were a perplexing menace; France was jealous of the fact that British troops had completed the conquest of Turkey; Italy was about to have her revolution. At this juncture M. Venizelos, the astute Greek statesman, suggested that his country should act as bailiff and as a consideration receive Smyrna and the surrounding district as provisional pledge. This notion had the double advantage of relieving the Allies of any need to take immediate action and of

appearing to fit in with the Wilsonian doctrine of self-determination, since many Greeks were long resident in that part of Asia Minor. On May 15th, 1919, the Greeks, supported by Allied warships, occupied Smyrna.

This action produced a startling effect on the prostrate Turk. He was ready for severe treatment, it was even likely he would accept a proposal then being considered for an American mandate, but to be annexed by the despised Greek was intolerable. At this time the Sultan's government at Constantinople was entirely overawed by the Allies, but Mustafa Kemal Pasha, the Turkish hero of the Gallipoli defence, immediately organized a national resistance. In Anatolia this group formed a provisional government of national defence which took up its headquarters at Angora. The movement was directed by army officers and persons traditionally associated with the Committee of Union and Progress.<sup>1</sup> The provisional government was not yet actively hostile to the Sultan's government at Constantinople, since the latter was clearly helpless in the hands of the Allies. By the end of 1919 nearly the whole of Anatolia acknowledged the control of the provisional government. Elections were held and a parliament with a Nationalist majority met at Constantinople on January 28th, 1920. This body published a National Pact which demanded the whole of Asia Minor and Thrace for Turkey, and rejected foreign control of Turkish sovereignty in any form.<sup>2</sup> This National Pact, which clearly ran counter to the aims of the Allies, as shown by the secret treaties, aroused the victors to recognition of the fact that defeated Turkey, if not yet on its legs, was certainly no longer

<sup>1</sup> This was the Young Turk Group which had been formed in pre-war days in order to force the Sultan, Abdul Hamid, to modernize Turkey. The Committee had chiefly worked through the western-educated officers. In pre-war days the Young Turk movement was strongly nationalistic, and in part under German influence. It was through this connection that Germany brought Turkey into the War.

<sup>2</sup> Up to this time the jurisdiction of the Turkish government in domestic matters was incomplete, due to the existence of Capitulations (by which foreign companies and individuals enjoyed special privileges; the Millet system (by which various non-Moslem communities were largely autonomous), and the international administration of the Ottoman Debt which since 1881 had collected important items of revenue.

on its back. On March 16th, 1920, the Allied forces officially occupied Constantinople, seized several of the Nationalist deputies and deported them to Malta. The remaining deputies fled to Angora where they reconstituted themselves as the Great National Assembly. The unfortunate Sultan was forced by the Allies to disavow the Nationalist movement and to declare that Mustafa Kemal and his supporters were in rebellion against the Government of Turkey. On April 24th, 1920, at the Conference of San Remo, the Allies published the terms of the Treaty of Sèvres, which embodied their views as to the future of Turkey, views largely based on the arrangements of the secret treaties. Mustafa Kemal and his friends, securely out of range in the centre of Asia Minor from the guns of the British fleet, rejected the terms, but the Sultan's government, less happily situated, agreed to sign the Treaty. In June the Greeks, financed by the British and ostensibly enjoying general Allied support, advanced from Smyrna into Asia Minor in order to enforce the terms of the peace settlement. The Nationalists had not been idle. They had established friendly relations with the Bolshevik government, which at that time had just succeeded in finally defeating the White Russians. The Bolsheviks were only too delighted to supply the Nationalists with arms and munitions. Brushing aside such forces as the Sultan's government was able to send against them, the Nationalists prepared to meet the Greek menace. In November 1920, Venizelos fell from power in Greece and ex-King Constantine, who had been hostile to the Allies during the War, returned to the throne. This event caused marked coolness in the relations between the Allies and the Greeks, and by April 1921 Italy was withdrawing her troops from Asia Minor, whilst during the next month the Allies declared themselves neutral in the Græco-Turkish war. It must here be said in their favour that they twice attempted to act as mediators by offering Turkey favourable modifications of the Treaty of Sèvres, but neither the Greeks nor the Turks would accept the Allied proposals. In July 1921, the Greeks resumed their offensive against the Turks with

considerable success. On October 20th of the same year there was published the Franklin-Bouillon Agreement between France and Turkey, in which France renounced all her claims in Asia Minor, and when, in April 1922, Italy signed a separate agreement with Turkey, it was clear that the solidarity of the Allies in respect of a Turkish policy had completely disappeared.<sup>1</sup> This was Mustafa Kemal's chance. He had now been given dictatorial powers with which he reorganized his army to such good effect that when on August 26th he attacked the Greeks he drove them pell-mell to the coast. The Turks reoccupied Smyrna on September 9th. The city was delivered to the flames and frightful scenes were witnessed as the Greek refugees endeavoured to seek shelter on board the British man-of-war lying in the harbour. The position of the British was extremely delicate. A British-French-Italian force was still in occupation of Turkish territory in the Straits of Dardanelles area, and it was not long before the victorious Kemalists were within fighting distance of the British lines. French and Italian troops withdrew and for a few days it seemed as if Great Britain was about to be committed to a fresh war with Nationalist Turkey. The situation was further complicated by the fact that the British Dominions, with the exception of New Zealand and Australia, were making it clear to the British Government in London that they saw no reason for participating in military action against Turkey. This was the notorious "Chanak incident" to which further reference is made in Chapter XII.

Fortunately war was averted, and the Angora Government decided on certain conditions to meet the three principal Allied Powers in conference. But the question of the relationships between the Sultan's government and the Nationalist government had to be settled before the conference could meet. There were at first signs that the two governments might amalgamate, but the Sultan's actions

<sup>1</sup> For another remarkable instance of the Turkish ability to produce disagreement between Western Powers pledged to co-operate against her, see Morley's *Life of Gladstone*, Vol. III, p. 9. for the story of "economic sanctions" against Turkey in 1880.

in declaring the Nationalist movement to be a rebellion and in signing the Treaty of Sèvres had sealed his doom, and on November 1st, 1922, the Nationalist Assembly declared that the Sultanate and Sublime Porte were abolished. The Sultan, Mehemet VI, escaped from Constantinople on board a British man-of-war.

On November 20th, 1922, negotiations for peace between Nationalist Turkey and Great Britain, France and Italy were opened at Lausanne. All the trump cards were now in Turkish hands, and they obstinately insisted on the complete fulfilment of the terms of the National Pact. It was in vain that the British Foreign Secretary, the Marquess Curzon, threatened the obdurate Turks. It was in vain that he spoke of leaving by his special train. The Turks knew well that public opinion in Great Britain would not countenance a war with Turkey, that France and Italy were but half-hearted supporters of Great Britain, and that Turkey had but to sit tight in order to secure everything she wished. The first session of the Peace Conference broke down, but when it was resumed and the Turkish attitude was seen to be unchanged the Allies were forced to give way. The Treaty of Lausanne gave the Turks the terms of their National Pact except for Turkish sovereignty over Western Thrace. It was further laid down that there was to be a demilitarized zone along the European frontier of Turkey and on each side of the Straits, and an International Straits Commission under Turkish presidency. Provision was also made for a mass exchange of Christian and Moslem populations between the Greeks and Turkey; an extraordinary migration, which was subsequently brought to a successful conclusion under the auspices of the League of Nations.

The next event in the history of modern Turkey was its proclamation as a Republic on October 29th, 1923. This was the work of Mustafa Kemal Pasha. He met with considerable opposition to his proposals and his opponents found a convenient rallying point in the issue of the Caliphate. When the Sultanate had been abolished the office of Caliph had been retained out of deference to the

religious susceptibilities of the people, and Mustafa Kemal had enacted that the future responsibilities of the office would be purely spiritual. Such a proposal, however, was quite out of keeping with the origins of the office and the provisions of Islamic law. The Caliphate was essentially a sovereignty entrusted with the temporal defence of Islam. The Caliph was looked up to as the Supreme Commander of the Faithful by Moslems all over the world. On the flight of the Sultan the Caliphate had been vested in his cousin, but when certain leading Indian Moslems addressed a letter to the Nationalist Government pleading that the Caliph should be accorded better treatment than he was receiving, Mustafa Kemal seized upon the incident as an excuse for abolishing the Caliphate on the grounds that its existence would lead to foreign interference in Turkish affairs.<sup>1</sup>

The abolition of the Caliphate was the signal for a rapid campaign on the part of Mustafa Kemal with the object of secularizing the Turkish state and abolishing, so far as possible, the Moslem framework which, in its dual capacity of being concerned with things temporal and spiritual, was a rival organization to the Nationalist Government. Religious schools were transferred to the Ministry of Public Instruction and religious courts were abolished. These far-reaching proposals encountered considerable opposition and severe economic troubles made things difficult for the Government. The crisis came to a head with the revolt of the Kurds in Eastern Anatolia in February 1925. The Kurds were the only non-Turkish race inside the frontiers of New Turkey.

At this juncture must be mentioned the fact that the one question left outstanding at the Lausanne Conference had been the question of the frontier between Turkey and Iraq<sup>2</sup> in the region of Mosul. The matter had been left for direct negotiation between Great Britain and Turkey, but no settlement having been arrived at, the matter was

<sup>1</sup> For a detailed account of the Caliphate see the *Survey of International Affairs*, 1925, Vol. I.

<sup>2</sup> A British "A" mandate.

referred to the League Council, which sent out a Commission to lay down a frontier line. The Turks maintained that the League Council's powers were not arbitral, but only advisory. The Council carried this question to the Permanent Court of International Justice, which in November 1925 declared that the Council's powers were arbitral and binding on both parties. Turkey was not, of course, at that time a member of the League of Nations, and she rejected the decision of the Permanent Court and underlined her rejection by signing a new treaty with Soviet Russia. At one time it looked as if war might break out between Turkey and Great Britain in connection with this dispute, but in fact an amicable agreement was reached in June 1926.

Meanwhile the Kurdish rebellion had been suppressed during 1925, and the Nationalist Government made the revolt an excuse for a further extension of secularization. All Dervish monasteries were closed throughout Turkey, and on November 25th, 1925, a law was passed making hat regulations—*i.e.* the wearing of the European hat and its taking off indoors—compulsory for all men. This law of the hat was of the utmost importance, since by Moslem law a follower of the prophet must say his prayers with his head covered, but at the same time be able to touch the ground with his forehead, two conditions satisfied by the turban or fez; hence, the compulsory introduction of western-style brimmed hats was an important anti-religious measure which stirred up violent opposition until suppressed by the ruthless use of the Tribunals of Independence. Further reforms followed in rapid succession and included the introduction of the Christian calendar, a Civil Code translated from that of Switzerland,<sup>1</sup> and a Penal Code adapted from that of Italy. Hostility to the Government culminated in the discovery of a secret plot in which prominent members of the opposition were involved. As a result of two great trials held at Smyrna seventeen persons were hanged, including Javid Bey, former Minister of Finance to several cabinets under the

<sup>1</sup> This automatically abolished the legality of polygamy.

old regime, and Nazim Bey, who had been for many years a staunch advocate of Nationalist Turkish policy.

So, by the end of 1926, Mustafa Kemal, who was henceforth termed the Gazi, or Victor, had overcome all opposition, and at the General Elections of 1927 and 1931 was unanimously re-elected President of the Republic.

## *2. Domestic Policy*

From 1926 the Dictator of Turkey pursued his policy with extraordinary vigour and skill. Its principal objects were, firstly, the rapid conversion of the people from being principally Moslem to being principally Turk, and secondly, the westernization of Turkey with the purpose of making its people nationally self-conscious and as secure as possible from foreign political and economic interference.

Considerations of space make it impossible to do more in this book than indicate the nature of some of the features in the transformation of Turkey.

The position of women was completely changed, and although an attempt in 1926 to legislate for the abolition of the veil met with determined resistance, the desired result was obtained by unofficial propaganda. In February 1931 the Gazi made a speech in which he declared that women had equal rights with men and that in future it was possible that they might share with men the duty of military service. The higher professions such as law, education and medicine were thrown open to women, whilst dancing in European style, a shocking pastime according to the Moslem tradition, is now freely indulged in by Turkish ladies, one of whom deservedly won the first prize in an international beauty competition in 1932. This event was commented upon with approval in the Turkish Press.

A small but significant action illustrating the determination of the Gazi to smash the orthodox Moslem tradition was the issue in 1927 of bank-notes bearing his portrait. The significance of this event, coupled with the erection of statues in the principal towns and the encourage-

ment of native art by lifting the ban on "studies of the nude" lies in the fact that Moslem law strictly forbade the use of representational art.

In Education the same westernizing and nationalizing purpose was pursued. The first census ever taken in Turkey took place in 1927, and revealed the fact that 92 per cent. of the population were illiterate. The whole educational system was overhauled, and religious schools suppressed; the Latin alphabet was introduced and elementary education for all children made compulsory by a law passed in March 1931.

Side by side with this revolution in the social and cultural life of Turkey there proceeded a determined effort to free the economic life of the country from foreign control and to develop Turkey's resources by the Turks for the Turks. The economic life of the Republic was handicapped by the fact that only in Western Anatolia was there a rail system and this was foreign owned, whilst judged by modern standards the road system was almost non-existent. Secondly, the exodus of the Greeks and Armenians deprived Turkey of that element in her population which was particularly skilled in commerce and finance. Thirdly, there were practically no factories in Turkey and her agricultural system was primitive. Fourthly, the Republic was saddled with a burden of external debt since, by the provisions of the Treaty of Lausanne, Turkey assumed liability for a proportion of the old Ottoman Public Debt.

Each of these four obstacles was tackled with vigour and considerable success. A policy of railway construction, chiefly financed out of revenue, was put in hand and foreign owners of existing railways were bought out. A plan for 5000 kilometres of motor roads was applied and the work of modernizing and enlarging the seaports set in full swing.

The banking system was reorganized and made all-Turkish, and the abolition of the Capitulations (decreed unilaterally by Turkey in 1914; recognized by the Powers at the Treaty of Lausanne) had the effect of removing

from foreign hands what was virtually a monopoly of Turkey's international trade. The Republican Government was at great pains to encourage the development of Turkish industry and the number of factories increased from 150 to over 2000 in 1933. At the end of 1933 the Gazi announced a Five-Year Plan for heavy industry. Large-scale public works and public utility companies were been put in hand, notably at Angora, the new capital. The foreign debt burden undertaken at Lausanne was progressively reduced, partly by the process of refusing to pay, and partly by exploiting the effects on Turkey of the world crisis, with the result that by the latest of several agreements, that signed in April 1933, Turkey's external liabilities were reduced to one-tenth of what they were in 1923.

During the early years of the republican regime Turkey was a debtor nation, since she was importing machinery and European manufactures on a large scale. Also, she was unable<sup>1</sup> to alter her tariff rates until 1929. On October 1st of that year there was a general increase of 33 per cent. in the tariff, an action which produced an economic and currency crisis in Turkey and forced the Government to take drastic action. It was on orthodox western lines, and deflationary in character. Since 1931 the budget has been balanced, the currency stabilized and an adverse balance of trade converted into a favourable balance of £18 million Turkish in 1933. In the same year the Government succeeded in floating its first internal loan.

Although Turkey has suffered severely from the world crisis, her economic position is sound, she is rich in natural resources and well fitted to stand alone in a world whose national states seem mostly committed to a policy of economic self-sufficiency (1934).

### *3. Foreign Relations*

From 1921-1926 Turkey looked to Russia as her ally against the predatory activities of the Western Powers, but

<sup>1</sup> Treaty of Lausanne.

after 1926 when the Mosul question had been settled, Turkey, anxious to imitate Western capitalism and fearing Communism, worked for good understandings with European Powers. Relations with Russia remained friendly but not enthusiastic.

In 1930 a Græco-Turkish convention was signed, and this was followed by a treaty of Neutrality, Conciliation and Arbitration between the two states. In October 1931, Athens witnessed the remarkable spectacle of the Greeks giving an ovation to a party of Turkish Ministers.

This astonishing change in the relations between two countries whose peoples have been at enmity with each other for centuries was due in the first instance to Italian foreign policy. Mussolini, anxious to counteract French influence in Jugoslavia and Rumania, conceived the notion of forming an Italian-Græco-Turkish Pact, but was at first unable to do more than obtain separate treaties of friendship with Greece and Turkey. However, Italy continued her efforts to bring Turkey and Greece to a settlement of their differences and eventually succeeded in bringing about the desired result.

The fact that Turkey had reached an agreement with Greece made it possible for serious consideration to be given to a project for a Balkan federation. For many years the possibility of "the troubled Balkans" settling down into some form of loosely federated unit has been dreamt of by those who see in the ambitions of the Great Powers in this part of the world a standing menace to the peace of Europe. An important unofficial Balkan conference was set up in 1930 and has met annually since that date. Its purpose is to consider all matters of common interest to the Balkan States. Between 1930 and 1933 there was a progressive improvement in the mutual relations of the Balkan States, an improvement in which Turkey participated. This crystallized early in 1934 with the signature of a Balkan Pact. It fell a good way short of the expectation of its authors since Bulgaria refused to participate, as she feared that by so doing she would be accepting in perpetuity various limitations imposed upon her after the Great War by the Treaty

of Neuilly. In particular Bulgaria seeks an outlet on the Ægean Sea.

There remains to be mentioned the fact that on July 18th, 1932 Turkey underlined her intention to commit her destinies to the Western way of life by becoming a member of the League of Nations.

We have discussed in the last three chapters the early years of Soviet Russia; the growth of Fascist Italy and of Modern Turkey. Three most unexpected and to some extent abnormal consequences of the pistol shot at Serajevo: three developments of our own times, each likely to have considerable effects on the international life of the times to come. Of Russia and Italy there will be more to say in Volume II, but now we must return to the Peace Treaties and describe their effects in Central Europe.

## CHAPTER IX

### CENTRAL AND EASTERN EUROPE (1919 TO 1925-26)

“Confusion now hath made his masterpiece.”—*Macbeth*.

“To say is easy ; to do is difficult.”—Chinese Proverb.

#### 1. *Victors versus Vanquished*

“WAR,” said Clausewitz, “is a continuation of state policy by other means.” His sentiment might equally well have been expressed by the words: “Policy is a continuation of war.” A peace treaty attempts to stabilize political and economic conditions, and since the universe is change it is certain that sooner or later the rigid framework created by the treaty will either have to be modified and revised by common consent, or else it will be broken to pieces in a new war.

The “expectancy of life” of a peace settlement will depend upon the extent and degree to which it is dictated, as opposed to an agreed, arrangement, and upon the disparity of strength between the victors and vanquished.

The treaties which brought the Great War to a close were imposed upon the vanquished, and were sponsored by Powers who in 1919 were overwhelmingly superior in strength to their ex-enemies. It was clear that only a miracle could ensure willing acceptance by the defeated of the terms of these documents, and that the overwhelming strength of the victors was a source of grave danger to future peace since it seemed that only by the goodwill of the Allies could any use be made of the provisions for revision which were cautiously suggested in Article XIX of the Covenant. That the victors would voluntarily abandon their war gains was as unlikely as that the vanquished would abandon efforts to restore in the future the position they had lost as a result of the War.

We have seen in the Fifth chapter how Germany resisted the application of the economic clauses of the Treaty, of the grim struggle which ensued and how at Locarno a peace settlement was made; a settlement buttressed by the Dawes Plan and underwritten by promises from Great Britain and Italy to protect both France and Germany from aggression, and an expressed intention by Germany to pin her faith to a "policy of fulfilment." We shall find in Volume II that in fact the 1925-26 settlement in Western Europe was but an armistice in the struggle between Germany and France, but for the moment we must leave it at that and devote a chapter to an account of the events which occurred between 1919 to 1925-26 in Central and Eastern Europe.

The issue was in principle the same as that around which "The Infernal Triangle" had taken shape. On the one hand, there was the desire of the victors in general and France in particular, to consolidate the post-War map of Europe. On the other hand, was the desire of the vanquished to evade the penalties of defeat in war.

The situation was further complicated by the emergence of Russia as an "enemy" of capitalism, and the activities of the Allies between 1919 and 1925-26 can be conveniently considered firstly, from the point of view of the terms of the Treaties of St. Germain and Trianon, and secondly, from the point of view of Russia.

## *2. More Salvage Work*

The break-up of the Austro-Hungarian Empire left two truncated pillars standing in Central Europe.

Although the Austro-Hungarian Empire in pre-War days had admittedly been a political patchwork into which Germans, Croats, Czechs, Slovenes, Magyars, Ruthenes and Jews, etc., were stitched and embroidered with Hapsburg thread, it had considerable claims to economic unity. It was then a very large free-trade area with an outlet to the Adriatic Sea, a common railway system, a great waterway (the Danube) and a common central government. By

1920 this area was split into seven fragments, all separated from each other by customs barriers.

The most desperate circumstances were to be found in Austria with her capital city, Vienna. For over four centuries Vienna had been the administrative, commercial and cultural centre of an Empire and after the War had a population of two million. In 1920 this proud and gay city found herself the capital of a small agricultural Austrian state with an area of 32,000 square miles and a total population of under seven million. In theory the Austrian and the Hungarian states were scheduled to pay reparations, but 1919 had not run its course before the Allies were obliged to extend reliefs to Austria. This obligation was urgent because of the existence of a proposal to unite Germany and Austria into one state (the Anschluss movement). Such union was expressly forbidden to both Germany and Austria by the Peace Treaties, and the possibility that by this device Germany might compensate herself for the losses of territory and man-power she had suffered at Versailles was a constant preoccupation of France and her satellites in the Little Entente. Upon economic grounds, the arguments in favour of the closest possible relationship between Austria and Germany were overwhelming, and it was in order to remove if possible this economic argument for the Anschluss that the Allies moved heaven and earth to rescue Austria from her economic collapse.

For three years the Allies struggled to agree amongst themselves as to how to put Austria on her economic legs and so permit her to become at least self-supporting, even if—as was soon recognized to be the case—all hopes of reparations must be abandoned. At last, in the summer of 1922, the Allied Powers suddenly remembered the existence of the League, and, with a statement to Austria that the Powers could do no more, they threw the utterly hopeless problem of Austrian finance to Geneva.

The manner in which the Financial Committee of the League achieved the impossible and devised a scheme which, by including in its terms League supervision of

Austrian finance, permitted credits to be raised from private sources for the financial reconstruction of Austria, astonished the pessimists and did much to raise the hopes of those who believed that the League way was the only way by which to approach intractable international problems. The Austrian success proved beyond a shadow of doubt that achievements impossible through the "ordinary diplomatic channels" became practicable when lifted by League machinery from the sphere of national politics into that of co-operative international action. The essential difference in practice between the two approaches was that external control of Austrian finances was essential if credits were to be raised. Austria, though *in extremis*, was still "sovereign" and would never have submitted to supervision by a single Power even if the Powers could have trusted any one of their number to do this work. A League Commission was, however, acceptable to both parties. By 1925 the economic situation of Austria seemed as secure as could be expected, given the underlying handicaps of her absurdly unreal economic relationships with areas formerly her markets. The tragedy of the Credit-Anstalt crash which inaugurated the financial collapse in Europe in 1931<sup>1</sup> was mercifully hidden from the vision of those who laboured so hard to save Austria from the wreckage of the War.

In the case of Hungary, it was the political ambitions of this defeated state which chiefly worried the victors. The proud and autocratic Magyars bowed the neck most unwillingly to the terms of the Treaty of Trianon which deprived them of their king—they obstinately refused to abandon the principle of monarchy—and mulcted them of much territory. Immediately after the War a Communist regime under Bela Kun practised a red terror in Hungary from February to August 1919. In order to propitiate the growing hostility of the people, "nationalistic" incursions were launched by Bela Kun into the territories lost to Czechoslovakia and Rumania. The latter were only too delighted to seize an opportunity of counter-ravaging the hated Hungarians and they did so with ferocity. In the

<sup>1</sup> See p. 402.

autumn of 1919 the Rumanians were in Budapest and had to be pressed by the Allies to withdraw.<sup>1</sup> In November the nobles of Hungary, led by Admiral Horthy, recovered control of the country and instituted a White Terror. Horthy was appointed Regent. Twice<sup>2</sup> the ex-King Charles attempted to regain his throne, and each time the Czechs, Rumanians, and Jugo-Slavs were thrown into a state of alarm at this potential infraction of the Peace Treaty, and threatened Hungary with military sanctions. On each occasion the Great Allies supported the Succession States. These incidents and in general the complete lack during the first few years after the War of any sign on the part of the reactionary Government of Hungary of willingness to co-operate in the application of the Peace Treaty, convinced Czechoslovakia, Rumania and Jugoslavia that they would be well advised to come together, and in the words of M. Benes, the "permanent" foreign minister of Czechoslovakia, to form an *Entente* designed "to maintain the new settlements in accordance with the terms of the Peace Treaties."

This was the genesis of the Little Entente concerning which a note will be found in the next section of this chapter.

Although it was principally Hungarian politics which jeopardized the post-War settlement, her economic troubles were considerable. Their symptoms were similar to those of Austria, *i.e.* an unbalanced budget; a rapidly depreciating currency; an obvious inability to restore the situation without financial assistance from outside. But there the resemblances ceased, because, whereas in the case of Austria the victors had good political reasons for the economic rescue of Austria (to prevent the growth of the Anschluss movement), in the case of Hungary, as we have seen, her attitude of truculent resistance to the spirit and the letter of the Treaties caused her so to alarm the states on her borders that they came together in an *Entente* for the express purpose of keeping her in subjection.

<sup>1</sup> They took with them livestock, rolling stock, machinery, etc., valued at £3,750,000.

<sup>2</sup> March 27th, 1921, and October 20th, 1921.

Notwithstanding her internal troubles and the relentless economic pressure brought to bear upon her by her neighbours, Hungary managed to carry on for a number of years. Her strength lay in her agriculture; she could at a pinch be more or less self-supporting, and she had no Vienna eating the heart out of the country. But by 1923 her privations were sufficiently severe to make her feel that she must pay the price for outside financial assistance, and by the same time the Little Entente felt itself to be sufficiently solid to view with approval the extension of assistance to Hungary—on conditions.

By March 1924, a League scheme for Hungarian reconstruction was in force. In its technical details it was similar to that arranged for Austria. Politically, the scheme contained provisions of great significance since Hungary undertook—as the price of financial assistance—to abide by the provisions of the Peace Treaty of Trianon. Up till then she had always claimed that it had been forced upon her and she had made little secret of the fact that she hoped to revolt against its penalties at the first favourable opportunity.

This, then, was the first example of one of the defeated Powers voluntarily agreeing to carry out the Peace Treaties—a precedent to be followed, as we have seen, by Germany in the spring of next year (1925).

### *3. The Little Entente*

We have already noted that the menace of an intransigent Hungary to the sanctity of the Peace Treaties was one of the immediate causes of the formation of the Little Entente first legalized by a treaty between Yugoslavia and Czechoslovakia (August 14th, 1920), and subsequently reinforced by alliances between Rumania and Czechoslovakia (April 23rd, 1921) and between Yugoslavia and Rumania (June 7th, 1921). These political manœuvres on the part of the states-beneficiaries of the Treaties of Sèvres and Trianon were warmly encouraged and in part inspired by France. By 1920–21 the French Republic was showing signs of being

afraid of the consequences of winning the War. French policy in every sphere was dominated by a passionate desire to capitalize the security of which the Treaty of Versailles seemed to be the documentary guarantee. Evidence on this point is to be found on all hands; in the policies towards Germany which have been described in Chapter V; in the alliance which she had built up with Poland; in her insistence that the question of security be given priority to that of disarmament, a matter which will be discussed in a later part of this book. It was even to govern her economic policy during the great crisis of 1929-34. The policy of binding together and cementing with arms and finance the states of Yugoslavia, Czechoslovakia, and Rumania into a "Little Entente," pledged to watch the defeated Powers on the east and south and to defend the Treaty of Versailles and dependent treaties by force of arms in alliance with France, was part and parcel of the same obsession.

By 1925-26 not only was the "Little Entente" expressed in the form of a series of defensive treaties in which Hungary was specifically mentioned as the danger, but a practice had grown up of periodic consultation between the governments and the formulation of a common policy for use at Geneva. The "Little Entente" *bloc* of forty-two million people had to some extent taken the place in Central Europe of the Austro-Hungarian Empire, with its population of fifty-one million.

#### *4. The Cordon Sanitaire*

##### *(a)*

From this account of the problems of Central Europe and the settlements, financial and territorial, which arose from the downfall of the Hohenzollern and Hapsburg Empires, we must pass to survey the wreckage of a third Empire, that of the Romanovs. Not only had the Allies to consider their attitude towards Soviet Russia, but they also had to decide what should be their attitude towards

newly-formed states, or embryo states, which had previously been part of the Russian Empire. Such states could be divided into two categories: firstly, the Baltic States—Finland, Latvia, Esthonia and Lithuania, whose independence had been recognized by Russia at the Treaty of Brest-Litovsk, a treaty which the subsequent victory of the Allies made null and void. Secondly, the States of Poland, whose independence was laid down in the Treaty of Versailles, and Rumania, a country which had taken advantage of the general confusion to seize the Russian province of Bessarabia under the plea that it was chiefly inhabited by Rumanian nationals.

As regards their attitude towards Russia, it should be noted that during the first three years following upon the establishment of the Communist regime in March 1917, the Allies wavered between two contradictory policies, pursuing first one, then the other, and sometimes both simultaneously. While the Great War was still in progress they lent moral and material support to the anti-Bolshevik movements under Denikin, Wrangel and Koltchak, chiefly in order to prevent the Central Powers from deriving the full benefit from the Russian capitulation at Brest-Litovsk. So long as Russia was in confusion, Germany was prevented both from making full use of Russian territories as a much-needed source of supply, and also from diverting all her forces on the Eastern Front to the struggle in the West.

With the advent of peace the Allies continued to give desultory and half-hearted support to the White Russian movements, but were actuated at this time chiefly by their fear and hatred of the growing Bolshevik "menace." There was, however, a considerable section of Allied opinion which realized that the stability of any peace settlement which might be made in the West would be gravely prejudiced by the continuance of this sporadic warfare in Eastern Europe. Hence the abortive scheme for a peace conference at Prinkipo, which has been mentioned in Chapter III. By 1920 both these lines of policy, severally and jointly pursued, having proved failures, and the Bolsheviks being still in effective occupation of such central

authority as existed in the Russian State, the Allies turned towards a third line of policy, which was that of endeavouring to isolate the Communist plague spot behind a cordon sanitaire of buffer states stretching from the Arctic Ocean to the Black Sea. But before we consider this policy we must review the fortunes of the Baltic States and say something of the renaissance of Poland.

(b)

The Baltic States were inhabited by peoples who had long lived restively under the Russian yoke, and with the weakening of the Tsarist grip during the War they had asserted their claims to autonomy. In this respect they received the support of Germany, who as early as 1916 had made a bid for Polish recruits by proclaiming a Kingdom of Poland. German support was further emphasized in the terms of the Treaty of Brest-Litovsk, which conferred "independence" on the Baltic States under the "protection" of the German army then occupying these regions, and in 1918 a German expeditionary force was sent to help repel a Bolshevik incursion into Finland. But when the Central Powers collapsed these Baltic states found themselves neighbours of a Red Russia anxious not only to regain the harbours on the Baltic which were practically her only ice-free outlets to the sea, but also intending to use the Baltic states as advanced positions for propaganda in the offensive against Western capitalism. In these circumstances the Baltic states, much as they feared penetration by Russian Communism, were yet exceedingly anxious to obtain Soviet recognition of their independence, for, unlike Poland and the Succession States of Central Europe, their frontiers had not been determined at the Peace Conference.

Finland, which had declared its independence in December 1917, and subsequently endured first a Red and then a White terror, finally secured Russian recognition of its autonomy by the Treaty of Dorpat in October 1920. Esthonia received recognition in February 1920, and Latvia

in August 1920. Lithuania was recognized by Russia in July 1920 in the hopes of securing her co-operation against Poland.

The newly-formed state of Finland was admitted to the League of Nations on December 16th, 1920, and Esthonia, Latvia and Lithuania were admitted on September 22nd, 1921.

We must now describe the renaissance of Poland.

(c)

The cockpit of Eastern Europe, which before the partitions had constituted a buffer state between the rival powers of Prussia, Austria and Russia, was in consequence the main arena of the war on the Eastern Front. The inhabitants of these contiguous areas on the frontiers of the belligerent Powers had for many years cherished dreams of recovering their independence and expressing it in a revived Polish state. On the outbreak of hostilities both the Allies and the Central Powers began to bid for Polish recruits by promising them independence as the reward of victory. Polish opinion was divided. One section, led by Dmowski, favoured co-operation with Russia and the Entente Powers; another, represented by the military adventurer Pilsudski, who for many years had been training a band of Polish troops in readiness for the war of liberation, pinned its faith to Austria.

In November 1916, a Kingdom of Poland, excluding Austrian or Prussian Poland, and roughly corresponding in size to the Napoleonic Duchy of Warsaw, was proclaimed by the Germans, as a bait for Polish support. The Tsar by way of a counterblast announced the following month his intention of granting Polish autonomy, and the revolutionary government which succeeded him endorsed this ukase. The Allied War Aims as formulated in 1917 included the liberation of Poland amongst the list of their objectives, and a similar declaration was embodied in President Wilson's thirteenth point. By 1918 the Poles, antagonized by the German blunder of imprisoning Pilsudski, threw in their

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lot with the Allies, and by June 1918 a Polish legion was fighting on the Western Front.

At Paris in 1919 the Poles attended as an Allied belligerent Power, and from that settlement there arose a new Poland, which though not as large as the ancient kingdom at the time of the first partition in 1772, had an area of approximately 150,000 square miles. The first Prime Minister of the Polish Republic was the famous pianist Paderewski, but the dominant personality in the land was Marshal Pilsudski, the uncrowned king of Poland. The key-note of the policy of this remarkable man was the attempt to restore the frontiers of 1772 and to make Poland the head of an anti-Bolshevik confederation in Eastern Europe.

We shall reserve to a later passage our account of the difficulties which arose over the settlements of the Polish frontiers, and now return to the story of the Baltic States.

(d)

We have seen that about the period 1920-21 there had come into existence to the west of Russia a number of independent states which seemed admirably suited to form the links in the *cordon sanitaire* within which at this time the Allies hoped to isolate Red Russia. The full development of this policy was, however, hindered by the quarrels which arose between the prospective members of this barrier. They were quarrels which chiefly centred round Poland, who was for several reasons in a different category from the rest of the "new" states of Eastern Europe. In so far as she was heir to Hapsburg and Hohenzollern territory as well as to that of the Romanovs, the position of Poland came within the cognizance of the Peace Conference at Paris. Moreover, Poland claimed as part of her old heritage a district of Lithuania which included the town of Vilna. So that during this period of "war after the war" Poland found herself, in distinction from the rest of the new states, involved in quarrels not only with Russia, but with Germany, with Czechoslovakia and with Lithuania. Finally, inspired by memories of bygone glories, Poland was not

content to be one amongst a number of succession states, but aspired to the leadership of Eastern Europe, an ambition which won the cordial approval of France. Another illustration of the lack of co-operation which existed between the new states is afforded by the failure of various attempts to bring about a *bloc* based on the fact that all these states were in a general way beneficiaries of the Allied victory.

For instance, Finland, disgusted with the aggressive attitude of Poland, decided to link her fortunes with those of the Scandinavian countries, who kept clear of alliances and entanglements and pinned their faith to the League. This *rapprochement* was greatly facilitated by the League settlement in 1922 of the Finnish dispute with Sweden over the Aland Islands.

Latvia and Esthonia, who concluded a defensive alliance with each other in 1923, endeavoured to form a *bloc* of ex-Russian states. Conferences were held at Helsingfors in 1921 and at Warsaw in 1922, but it was soon found impossible to get either Finland or Lithuania to co-operate with Poland. Accordingly, Latvia and Esthonia, as anxious to revive the Russian trade through their ports of Riga and Reval as Russia was to secure an outlet to the sea, began timidly to cultivate the friendship of their formidable neighbour. Progress was difficult, as Russia accused these two states of being the headquarters of capitalist espionage, whereat they replied by charging Russia with fomenting the Communist outbreak which occurred at the end of 1924.

Of all the Baltic states Lithuania was the most friendly towards Russia, chiefly in order to secure Russian support in her struggle with Poland. This struggle centred about the towns of Vilna and Memel. Vilna, which the Lithuanians considered as the obvious capital of their new state, was claimed by Poland on historic grounds. The dispute was referred to the League and a plebiscite was ordered. But meanwhile, in April 1918, the Poles had occupied the city, and, since no international force was available to bell the cat, proceeded to conduct a plebiscite under conditions

guaranteed to produce the desired result. In 1923 the Conference of Ambassadors endorsed the principle that possession is nine points of the law, and awarded Vilna to Poland, despite the continued protests of Lithuania. Memel, a strip of territory on the right bank of the Niemen, which was ceded by Germany under the Peace Treaty, destination unknown, was also a bone of contention between these two states. In January 1923 the Lithuanians, profiting by the Polish example at Vilna, invaded Memel and drove out the French troops who were in occupation pending the final discussion as to its ownership. The Allies made a formal protest and backed it up with the dispatch of French and British warships, but the Lithuanians hung on like grim death. Finally, in May 1924, Memel was ceded to Lithuania, subject to certain stipulations with regard to the rights of minorities and the transit of Polish timber. This time it was for Poland to protest.

(e)

We left the story of modern Poland at a point where we mentioned that Marshal Pilsudski, the *de facto* ruler of Poland, was committed to a policy of extending the boundaries of his country approximately to those she had enjoyed in 1772. This policy, as we have seen, involved Poland in quarrels with her neighbours, notably Lithuania. It had even more serious repercussions elsewhere, involving Poland and indirectly the ex-Allied Powers in controversies with both Russia and Germany which were a menace to the peace of Europe for many years to come.

To deal first with the Polish-Russian disputes. As has been already mentioned, the settlement of the western frontiers of Poland came within the purview of the Allies in conference assembled. The drawing of the western boundaries of Poland across the territories of disarmed and prostrate foes was a matter which at first seemed to present few difficulties, though likely to provide much controversy in the future. The eastern frontiers, owing to the fact that Bolshevik Russia, though a hostile menace, was not

technically an enemy, and certainly not a defeated one, presented immediate difficulties. A provisional frontier, the so-called "Curzon line," was laid down in 1919 by the Supreme Council, but was disregarded alike by the Bolsheviks who, following the withdrawal of the German armies in November 1918, had proceeded to invade White Russia and the Ukraine, and by the Poles.

In December 1919 the Soviet Government made peace overtures to the Poles which the latter rejected, and at the same time Poland announced that she could not accept the Curzon line. Paderewski, unable to control the domestic situation, resigned office and Pilsudski redoubled his expansionist efforts. At the beginning of 1920 the Baltic states, observing the collapse of the White Russian offensives (Denikin, Wrangel, Koltchak), deemed it wise to make peace with their powerful neighbour. Russia then considered that circumstances were favourable for an advance on Poland. The Russian policy was compounded of two motives. For the one part an advance westward over Poland, one of the traditional bulwarks of Western Europe against Eastern invaders, would bring nearer the day when the armed forces of Communism as well as its propaganda would assault the strongholds of capitalism. For the other part, although at the date now being considered the *motif* of world revolution was dominant in Russian policy, the very bourgeois and nationalistic desire to keep Russia for the Russians was also present. (In later years this second aim was to swamp the ideal of world revolution and in Lenin was to lie embalmed the apotheosis, not of internationalism, but of Russian socialized nationalism.) To defeat the Poles was both to help on world revolution and to protect the Russian state from spoliation. In March 1920, Pilsudski rejected a second series of Russian peace proposals, and with fiery Polish arrogance demanded a Poland with the frontiers of 1772.

By July 1920, the Soviet troops were near the outskirts of Warsaw, and Poland was urgently appealing for help to the Supreme Council. The Allies were in a grave

difficulty since, much as they feared a Russian victory, they were unable to commit themselves to a new war with Russia. France urged vigorous action; Great Britain sat on the fence, but eventually a mission was sent to Warsaw consisting of the French General Weygand and a staff. He rallied the Polish military command and at the Battle of Warsaw (August 1920) the tide of invasion was turned. Opinions differ as to the extent to which Polish military prowess, French tactical genius and Russian lack of organization contributed to this result. In March 1921, the Treaty of Riga between Russia and Poland, by which each state recognized the other's independence, brought the dispute to a close, and in fact settled the eastern frontiers of Poland, though their alignment was not "officially" recognized by the Powers as settled until February 1923.<sup>1</sup>

The western frontiers of Poland provided the Allies with two problems of a serious character: one of these was that of Upper Silesia, the other was the Polish Corridor. We shall examine these questions in rather more detail than is strictly permitted by the scale of this book, because their intricacies were typical of the kind of problem which confronted the Allies in their efforts to carry out the Peace Treaties.

"Of all the questions whose solution was adjourned by the Treaty of Versailles there was none more arduous, more painful or more formidable than that of Upper Silesia." Thus spoke M. Calonder, President of the Conference on Upper Silesia, which was held in 1921.

Upper Silesia had, for dynastic reasons, separated from Poland during the Middle Ages and had thrown in its lot with the Kingdom of Bohemia. In 1526 the "Duchy of Silesia" had, with the rest of Bohemia, become incorporated in the dominions of the House of Hapsburg. In 1742, as the result of the victory of Frederick the Great over the Austrian forces of the Empress Maria Theresa, Silesia was transferred to Prussia. After that date its great economic resources were rapidly developed by German capital and Polish labour until, at the time of the War, it had become

<sup>1</sup> At this date "recognition" was very important to the Bolsheviks.

second only to the Ruhr district in industrial importance. The area of Upper Silesia is about 11,000 square kilometres; it is immensely rich in coal, iron and zinc; the population at the end of the War was about two million, of whom two-thirds were Polish and about one-third German. When the Polish state was reconstituted under the Treaty of Versailles the question immediately arose as to what was to be the destiny of Upper Silesia. The Poles maintained that ethnologically it was a part of the ancient Kingdom of Poland; the Germans maintained that, economically speaking, it was an integral part of Germany. The peacemakers at Versailles felt that the problem was too difficult and too important to be solved out of hand, and accordingly it was laid down in the Treaty that a plebiscite should be held to determine the future destiny of the district, and that, in the meantime, 500,000 tons of coal a month should be exported from Upper Silesia to Germany, free of duty. An Inter-Allied Commission, backed by a detachment of Allied troops, was appointed to rule the country until the plebiscite was held, and this Commission was charged with the unenviable duty of seeing that the plebiscite was conducted without interference or undue pressure from the Germans and the Poles. The result of the plebiscite, which was held in March 1921, did little to solve the difficulty. Of the 1,190,846 voters, 479,359 voted in favour of incorporation with Poland, and 707,605 in favour of incorporation with Germany. It was alleged that large numbers of the Polish working classes employed by German industrialists voted in accordance with the wishes of their masters. Accordingly, in August 1921, the Supreme Council of the Allies referred the whole thorny question to the Council of the League. In October of the same year the Council issued a report which was adopted in the following month by the Conference of Ambassadors—the body which had superseded the Supreme Council as the chief executive of the ex-Allied Powers. This report provided that the territory in dispute should be divided between Germany and Poland roughly in proportion to the number of votes cast on each side. The north-western

part of Upper Silesia went to Germany, and the south-eastern part to Poland. It is significant that in the Polish area were to be found 53 out of the 67 coal mines, 21 out of the 37 blast furnaces, 9 out of the 14 steel-rolling mills, and 226,000 tons out of the annual output of 266,000 tons of zinc—or 70 per cent. of the entire pre-War German zinc output. The League report recognized that great difficulties would arise over such matters as the sudden transition from German to Polish currency, the reorganization of railways, water and electricity supplies, the treatment of minorities and the expropriation (subject to due compensation) of the owners of private property. It accordingly provided for the immediate negotiation of a Polish-German convention which should draw up a *modus vivendi* on all these problems for a period of fifteen years. Pending the conclusion of such a convention, the territory was to continue to be administered by an Inter-Allied Commission, to which was entrusted the demarcation of the new frontier on lines drawn up by the League Council. This Inter-Allied Commission was to have the advice of a mixed commission of Poles and Germans in equal numbers under the chairmanship of a neutral appointed by the League, and a Tribunal for Appeals was set up, composed of one German, one Pole and a neutral president. The Upper Silesia Conference accordingly met at Geneva under the chairmanship of a Swiss, M. Calonder, and in May 1922 a convention, consisting of 606 articles, more voluminous and more technical than the Treaty of Versailles itself, was signed. It covered such questions as the administration of the railways, of the water and electrical systems, monetary system, postal services, customs regime, social insurance, the conditions regulating employers' and workmen's federations, the rights of minorities and the expropriation of private property, for a term of fifteen years. It appeared as though all these questions had been satisfactorily settled, at any rate for a time, and in July 1922 the Allied army of occupation left the country.

It soon, however, became evident that several of these questions, notably that of minorities and that of the

expropriation of private property, were far from being satisfactorily arranged.

The rights of minorities in Upper Silesia had been included in the guarantee given to minorities in general by the League of Nations. A time limit was granted during which Polish residents in the German area and German residents in the Polish area might exercise the right of transferring themselves and their property to the sovereignty of the state to which they preferred to belong. In practice this matter gave rise to great difficulties.

With regard to the expropriation of German property in Poland there were also considerable difficulties. Whilst the Poles, for reasons of economic solidarity, were anxious to take over from German owners the control of land and factories within their new boundaries, the Polish Government was embarrassed for lack of the funds necessary to compensate such owners, with the result that by September 1926 the German Government presented to the Polish Government a bill for 521,000,000 marks under this head.

Further difficulties arose out of the commercial relations of the two countries. The 500,000 tons of coal a month which the Allies, out of regard for German economic necessities, had provided should be exported duty free from Polish Silesia, soon became an embarrassment rather than an asset to Germany. During the period of the French occupation of the Ruhr this coal was welcomed but after the evacuation coal became a drug on the market, and by June 1925, Germany announced that she would take no more Polish coal. Since Germany absorbed no less than 50 per cent. of the total Polish exports, whereas Poland only took 6 per cent. of German products, Germany was in a strong position. In 1925, after the termination of the period of five years' unilateral free trade between Poland and Germany provided for by the Treaty of Versailles, a tariff war began between the two countries. So much for Upper Silesia. The other great problem connected with the western frontiers of the New Poland was that destined to become notorious as the question of the so-called "Polish Corridor."

It was said by Frederick the Great of Prussia that "Whoever holds the course of the Vistula and Danzig is more fully master of that country [Poland] than the King who reigns over it." It was this conviction which induced him to annex, under the first partition in 1772, the enclave of Polish territory which lay between Pomerania and the Duchy of East Prussia and which subsequently became known as West Prussia.<sup>1</sup> When the time came to draw the western frontiers of Poland, the map-makers were confronted with a matter of great difficulty. Poland, not unnaturally, demanded that the Allies should carry out Wilson's thirteenth point, which ran as follows: "An independent Polish State should be created which should include the territories *inhabited by indisputably Polish population* which should be *assured a free and secure access to the sea* and whose political and economic independence and territorial integrity should be *guaranteed by international covenant*."<sup>2</sup> This meant that West Prussia, or part of it, must be reincorporated in the new state. But how could this be done without violating the most elementary considerations of equity? On a conservative estimate<sup>3</sup> 42.5 per cent. of the population of the area in dispute were Germans. Danzig was the outlet not only for Polish trade, but also for that of the German regions on the Vistula: it would entail cutting in two sections the German railway system which ran from east to west: moreover, it meant driving a wedge through Prussia, the home of the Junkers.

As finally arranged, Danzig with a hinterland of 750 square miles was made a Free City under the League, whilst Poland's outlet to the sea was provided by the cession to Poland of a strip of territory, roughly 100 miles long from north to south, and 50 miles wide stretching from Gdynia to Bromberg. This "Polish Corridor" was to prove a source of constant quarrels between Germany and Poland. The German attitude is shown by the erection in West

<sup>1</sup> Danzig and the Province of Posen were not annexed by Prussia until the second partition in 1793.

<sup>2</sup> Italics mine.—S. K.-H.

<sup>3</sup> There were almost as many estimates of the figures of population as there were Poles or Germans in the area under dispute.

Prussia facing the Polish Corridor of a monument bearing the inscription "Never forget, Germans, of what blind hatred robbed you!" Friction was somewhat eased by the German undertaking at the Treaty of Locarno "not to resort to war for the alteration of her eastern frontier."<sup>1</sup>

Nevertheless Poland felt in need of firmer guarantees of her frontiers, especially her western frontier, than were provided by the Treaty of Versailles. Failing in her attempts to establish an ascendancy over the Baltic States she turned for support to Rumania, a state which had a powerful interest in the maintenance of the post-War settlements, both as regards her western frontiers, greatly extended at the expense of Hungary, and as regards her eastern boundaries which included Bessarabia, formerly a province of Russia. A defensive alliance between Poland and Rumania was signed in March 1921. An event of even greater significance was the treaty concluded a month previously between Poland and France. These two treaties, like those which created the Little Entente, were part and parcel of the general desire of the states-beneficiary of the Peace Treaties to take out insurance policies against the danger of revisionary action by the defeated Powers or by the outcast Russia. The preambles to the two Polish treaties explain their purpose. That with France begins:

"The Polish Government and the French Government, both desirous of safeguarding by the maintenance of the Treaties which both have signed . . . the peace of Europe, the security of their territories and their common political and economic interests, have agreed as follows . . ."

That with Rumania starts:

"Being firmly resolved to safeguard a peace which was gained at the price of so many sacrifices (Poland) and (Rumania) have agreed to conclude a Convention for a defensive alliance."

<sup>1</sup> An undertaking which was reaffirmed in more definite terms at the time of the Polish-German Pact of January 1934. See Vol. II.

Thus it may be seen that the war after the war in Central and Eastern Europe resulted in a stabilization of the new frontiers. New maps of Central and Eastern Europe could now be printed without the fear that they would become obsolete overnight. The heirs of the Hapsburg monarchy, fortified by the formation of the Little Entente, were sitting down to take stock of their new possessions. On the east the Bolshevik drive towards Western Europe had come to a standstill and, whilst the attempt to form a solid *cordon sanitaire* from the Arctic to the Black Sea had broken down, mainly owing to the disintegrating ambitions of Poland, the Baltic States were firmly established in the north and Poland had come to terms with Rumania in the south.

The keystone of the arch of anti-revisionist forces both in Central and Eastern Europe was France. Working through the Little Entente, she kept Austria and Hungary in subjection; by her alliance with Poland, who in turn was allied with one of the Little Entente Powers, France both controlled revisionist movements in the east and linked together the two groups of Powers in Central and Eastern Europe whose interests were vitally bound up with the maintenance of the Peace Treaties. As in the west of Europe, so in the centre and east—the Treaty worked.

## CHAPTER X

### CENTRAL AND EASTERN EUROPE—II

“What the ears hear is not like what the eyes see.”—Chinese Saying.

“When we take off our boots and stockings to-day,  
That we shall wear them to-morrow who can say?”—Chinese Saying.  
(Attributed to a Minority.)

“If you know of a better ’ole—go to it.”—BRUCE BAIRNSFATHER.

#### 1. *Italy versus Yugoslavia*

IN Chapter V we examined the story of the first five or six years of the post-War period as it was focused in Western Europe. It was here that the struggle between those who were attempting to crystallize the post-War settlement and those whose hearts were set on revision was most acute. In peace, as it had been in time of war, it was the Western Front—France *versus* Germany—which was recognized as the key conflict. But just as during the War the central campaign in the West was accompanied by a series of subsidiary campaigns whose fortunes both waxed and waned with those of the greater struggle, as well as exercising indirect influence thereon, so in the war after the war there were the subsidiary clashes between victors and vanquished in Central and Eastern Europe, indirectly connected with the great struggle between victor and vanquished in the West. These subsidiary struggles which took place in Central and Eastern Europe fell into three categories. There were the post-War disputes between victors and vanquished as illustrated by the clash between the ex-enemy states of Austria and Hungary and the Little Entente; there were the disputes between post-War states such as Poland and the Baltic states and between Poland and Soviet Russia. These two sets of quarrels have been described in the preceding chapter. There remains a third category of conflict, that in which two ex-Allies,

Serbia (enlarged into Yugoslavia) and Italy put forward conflicting claims to territories previously ruled from Vienna.

Italy after the War was in the delicate position of being a victor Power by no means wholly disposed to support the Peace Treaties. Her troubles dated back to the cynical self-interest which had governed her entry into the War. The secret Treaty of London, which gravely embarrassed France and Great Britain in their dealings with President Wilson at the Peace Conference, gave rise to further difficulties after the Treaty was signed. The promises made to Italy were inconsistent not only with the Wilsonian doctrine of self-determination, but also in direct conflict with the aspirations of the Serbs for a greater Serbia, to be known as Yugoslavia, the kingdom of the Serbs, Croats, and Slovenes. Throughout the War the Slavonic subjects of the Austro-Hungarian Empire had shown marked hostility to the Central Powers and had deserted in large numbers to the *Entente* armies. A Jugo-Slav committee was formed in London in 1915 and, in the declaration of war aims formulated by the *Entente* Powers in December 1917, the liberation of the Jugo-Slav peoples was included in the list of objectives. From the time of the Secret Treaty of London there were signs of a growing conflict between the Adriatic designs of the Italians and the ambitions cherished in the same region by the Jugo-Slavs. The population on the eastern shores of the Adriatic was a mixture of Italians and Slavs, and whilst Italy was bent upon securing naval supremacy in the Adriatic, an outlet to the seaboard was considered by the Jugo-Slavs to be essential to the future economic welfare of their projected state.

The compromise reached at Paris between the demands of Yugoslavia, the ideals of President Wilson and the claims of Italy was entirely unsatisfactory to the Italians, but though their delegate temporarily retired from the Conference,<sup>1</sup> better terms could not be gained. This failure of Italian foreign policy played its part in preparing

<sup>1</sup> See p. 102.

the ground for the overthrow of the quasi-democratic parliamentary system, whose successor, the Fascist Government, was at the outset strongly nationalistic. Mussolini, busy at home creating the conviction that the Italian was a man to be reckoned with, was bound to stimulate this sentiment by taking a firm line abroad. The situation under the old regime—the sitting at conferences in the rôle of the poor relation—was to be avoided at all costs. Before Mussolini seized power his movement had received numerical and moral support from the Fiume episode. This was due to an expeditionary force which, defying the Allies and the Italian and Serbian Governments, had seized Fiume. In its complications “The Fiume Question” provided a southern parallel to the Upper Silesian problem, and it is worth describing as another example of the type of difficulty which arose in connection with the Peace settlements.

At the end of the War the troops of the rival claimants to Fiume—Italy and Serbia—had caused so much unrest in Fiume that an Inter-Allied Commission had been placed in charge of the town. Suddenly, to the discomfiture of the statesmen wrangling in Paris, Gabriele D’Annunzio—poet, warrior and poseur—took the law into his own hands, and, collecting a band of fellow-nationalists at Ronchi, near Trieste, seized Fiume on September 12th, 1919. Paris was left gaping. The Allied Commission had for some time been practically entirely Italian-controlled; a battalion or two of British and French troops could do nothing in face of colleagues deserting *en bloc* to the new-comers, and the only course was to abandon the town. D’Annunzio, drawing up his own constitution, settled down to rule an autonomous state. This he did for a year, entertaining the population with flamboyant demonstrations of national sentiment, a rôle at which he was a past-master, while carrying on acrimonious discussions with the Rome Government—which was thus placed in an awkward position *vis-à-vis* the Allies—as to the way in which the future of the whole Adriatic question should be determined. When he refused to recognize a treaty signed by Signor Giolitti’s

government in which part of the town was promised to the new Kingdom of the Serbs, Croats and Slovenes, the situation became intolerable, and in December 1920, in face of military pressure, he was obliged to retire to his villa on Lake Garda. His followers, filled with the righteous conviction that they had won Fiume for Italy and then been abandoned by the supine parliamentarians in Rome, flocked into the Fascist Party. D'Annunzio was pensioned. The story goes that Mussolini said of the poet-warrior: "He is like a hollow tooth, when it is empty it aches. One must fill it with gold."

. . . . .

A further incident between Italy and an ex-Allied government occurred on August 31st, 1923, when news arrived that the Italian fleet had bombarded the defenceless citadel of the Greek island of Corfu, then tenanted by Greek refugees from Anatolia,<sup>1</sup> and that Italian troops had seized this Greek possession. The occasion for this exhibition of the iron hand was the fact that an Italian general, working for the Council of Ambassadors at the business of settling the frontiers of Albania, had been murdered on Greek soil. After some weeks of international anxiety the incident was cleared up by Greece paying an indemnity of 50,000,000 lire.

It was not till 1924 that the vexed question of Fiume and the wider issue of Italian-Jugo-Slav relations in the Adriatic were settled at Rapallo in a series of agreements by which Fiume became Italian and Jugoslavia received certain concessions.

The story of these later negotiations provided strong evidence in support of Mussolini's claims to statesmanship and peacefulness, a claim further reinforced through the participation by Italy in the Locarno treaties as a co-guarantor with Great Britain of the Franco-German frontier.

As may be easily imagined, the tangled story whose threads we have endeavoured to trace in this chapter and its predecessor played havoc with the distribution of

<sup>1</sup> See p. 180.

nationality. It threw into prominence the question of Minorities, and we must now examine this subject.

## *2. The Minorities<sup>1</sup> Problem*

We have already had occasion to compare the struggles which arose around the peace settlements with the nature of the War, and we can carry the comparison a stage further and ask whether during the conflicts concerning the peace settlements there were people who occupied a position similar to that filled by the neutrals during the War. In a sense—though the analogy must not be pressed too far—the Minorities were such peoples, for they were the helpless victims of treaty arrangements over which they had exercised little control.

The Minorities problem, whether in its racial, religious or cultural aspects, has an ancient history. The record of Jewry, after the dispersion, is a long story of the tragedy of a Minority. The growth of nationalism during the nineteenth century often caused the dominant nationality in a state to embark upon a process of "nationalization of minorities" in order to make the state into a homogeneous unit, whilst the minorities counter-attacked by demanding independence and seeking the support of some national group beyond the frontiers of the state in which they were being oppressed.<sup>2</sup>

As a result of the great reshuffle of sovereignties which took place in 1919 it is probable that in an area in which dwelt about 104 million persons, no less than 80 million found themselves enjoying or lamenting new nationalities. It is with those in lament that we are here concerned. The Peace Treaties were supposed to be based upon the Wilsonian doctrine of self-determination, and though it seems justifiable to say that on balance the new frontiers reduced the sum total of those living unwillingly under alien rule, yet injustice was often the price of justice.

<sup>1</sup> A national minority has been defined as a body of people bound together by a consciousness of kind, which feels itself separate and different from the nationality which dominates the state.

<sup>2</sup> See Chapter I, p. 13.

As a result of the Treaties it is estimated that the following substantial minorities groups were created :

German . . .	8 million
Ruthenians . . .	4 „
Magyar . . .	3 „
Bulgar . . .	1 $\frac{1}{4}$ „
Jugo-Slav . . .	$\frac{1}{2}$ „

“ Minorities newly created by the transfer of territories were in many cases put under the domination of nationalities whom they considered culturally their inferiors ; frequently in these cases nationalities formerly oppressed became the masters of their oppressors. With the memory of their sufferings still fresh in their minds, they threatened unexampled vengeance on their erstwhile masters.”<sup>1</sup>

In order to protect these minorities the chief Allied and Associated Powers forced Czechoslovakia, Poland, Yugoslavia, Rumania and Greece to bind themselves by treaty to respect the rights of minorities within their borders.

In addition to these special treaties, appropriate clauses were inserted in the Peace Treaties, and there are also a great many “ special declarations ” and conventions which have been made to deal with various aspects of the minorities question. There is a general framework common to practically all these instruments, whilst most of them contain special provisions in favour of certain minorities.

The general clauses are recognized as fundamental laws against which no law, regulation or official action shall conflict or prevail. The general rights are as follows :

(1) Rights in favour of all inhabitants, without distinction of birth, nationality, language, race or religion :

(a) full and complete protection of life and liberty ;

(b) free exercise, public and private, of any religion not inconsistent with public order or private morals.

<sup>1</sup> Foreign Policy Report, vol. vii, No. 19, November 25th, 1931.

- (2) Right to acquire nationality.
- (3) Rights in favour of all nationals, without distinction of race, language or religion. Equality before the law and enjoyment of the same civil and political rights.
- (4) Rights in favour of members of racial, religious and linguistic minorities (only non-Moslem minorities in Turkey):
  - (a) Difference of religion to constitute no bar to admission to public employment, etc., or to the exercise of professions and industries.
  - (b) Unrestricted use of their language in private intercourse, commerce, the Press, etc.
  - (c) Adequate facilities, notwithstanding the adoption of an official language, for the use of their language, orally and in writing, before the Courts.
  - (d) Equal right with other nationals to establish and maintain at their own expense charitable, religious, social and educational institutions, etc.
  - (e) In towns and districts where there is a considerable proportion of members of a linguistic community, adequate facilities for primary instruction through the medium of the child's own language; where there is a considerable proportion of members of any minority, an equitable share in state funds provided for educational, religious or charitable purposes.

The minorities are not parties to the treaties and instruments mentioned above, they are merely beneficiaries of certain rights, the fulfilment of which they cannot in their own right demand. The enforcement of the minority treaties depends partly upon the fact that the "general rights" are recognized by the states which have assumed international obligations with respect to their minorities as

being "fundamental laws," and partly upon the guarantee of the League of Nations. The guarantee of the League is contained in the following article (quoted from the Polish Treaty):

"Poland agrees that the stipulations in the foregoing Articles, so far as they affect persons belonging to racial, religious or linguistic minorities, constitute obligations of international concern and shall be placed under the guarantee of the League of Nations. They shall not be modified without the assent of a majority of the Council of the League of Nations. The United States, the British Empire, France, Italy and Japan hereby agree not to withhold their assent from any modification in these Articles which is in due form assented to by a majority of the Council of the League of Nations.

"Poland agrees that any Member of the Council of the League of Nations shall have the right to bring to the attention of the Council any infraction or any danger of infraction, of any of these obligations, and that the Council may thereupon take such action and give such direction as it may deem proper and effective in the circumstances.

"Poland further agrees that any difference of opinion as to questions of law or fact arising out of these Articles between the Polish Government and any one of the Principal Allies and Associated Powers or any other Power, a Member of the Council of the League of Nations, shall be held to be a dispute of an international character under Article 14 of the Covenant of the League of Nations. The Polish Government hereby consents that any such dispute shall, if the other party thereto demands, be referred to the Permanent Court of International Justice. The decision of the Permanent Court shall be final and shall have the same force and effect as an award under Article 13 of the Covenant."

An elaborate procedure, based on a series of resolutions of the Council of the League, has been established at Geneva for the application of "The Minorities" treaties. Particulars of this procedure will be found in the Chapter on

the League of Nations in Volume II. Some indication of the extent to which it has been used is given by the following statistics.

The Secretary General of the League reported that 101 petitions had been received from minorities during the period 1931-32. Of these 21 had been declared non-receivable; 80 had been transmitted to Committees of Three. Forty-nine Committees had been convoked, and had held 58 meetings, besides 90 meetings of 45 Committees to continue examinations of petitions received during a previous year. The examination of 48 petitions had been concluded during the year; this included 28 received during a previous year. During this period three cases (each involving several petitions) came before the Council; these involved the Ukrainians in Polish East Galicia, the Germans in Western Poland and the Szeklers in Rumania. Seven cases came before the Council under the Upper Silesian procedure.

Although the minorities and their friends have never ceased to complain of the ineffectiveness of the safeguards provided and the refusal of some states to accept minority treaties, it is probable that on the whole the existence of the machinery of the League and the publicity which the grievances of minorities have received have improved "minority conditions" as compared with the pre-War state of affairs. On the other hand, there is much to be said for the creation at Geneva of a special minority commission analogous to that which superintends the execution of the mandates. Again, it is a fact that intolerance and oppression by the ruling nationality has frequently been equalled in intensity by the refusal of the minority to accept their obligations as nationals of their new state.

The whole question is, in fact, but one aspect of the wider issue of co-operation within a state and between states. If, for example, relations between Germany and Poland are strained, the Poles in Germany and the Germans in Poland will certainly be the greatest sufferers. From this point of view the extent and intensity of the minorities question and the measures taken at any given moment

for its solution are reflections of the national and international policies of the states concerned.

### 3. *Conclusion*

In Eastern and Central Europe, as in the case of the infernal triangle in Western Europe, by the period 1925-26 there was a general improvement in the political situation. Turkey had left the European scene to which she had come so fiercely in the sixteenth century, for though she yet maintained a foothold at Constantinople, the heart and brain of the New Turkey was at Angora in the centre of Asia Minor. Russia was beginning to achieve diplomatic recognition and simultaneously was paying more attention to domestic reorganization and less to plans for world revolution. Poland was at peace in her foreign relations—though it was an uneasy peace with Russia and Germany—and the dictator Pilsudski was firmly restoring internal order and economic stability. The Little Entente had attained two outstanding diplomatic victories and was an important force standing with France behind the Peace Treaties. The relations between Italy and Jugoslavia were correct, and Fascism, having secured itself at home, was displaying moderation in its foreign policy. Austria had been saved from economic destruction, and the Socialist city fathers of Vienna were about to launch their great housing schemes. Even Hungary had accepted the inevitable, and it seemed she was beginning to look to the future and forget the past. As the years passed and war passions died down, the enemy states were admitted to the League; Austria and Bulgaria in 1920, Hungary in 1922, Germany in 1926,<sup>1</sup> and at the same time, though the Peace Treaties remained as the legal basis of the new Europe, their application was modified in certain respects, either because they had been fulfilled (disarmament of defeated Powers) or else because—as in the case of reparations—their fulfilment was impracticable. The victorious Powers were beginning to realize that in certain circumstances the provisions of the

<sup>1</sup> Turkey did not join until 1932.

Peace Treaties could not be carried out in their entirety, whilst the vanquished were appreciating that concessions could be gained in return for an undertaking to co-operate in the business of reconstructing Europe on the basis of the results of the War.

A painful educative process had been taking place since 1919 and it had involved lessons for both the Allies and their conquered foes.

By 1925-26 it seemed that the War was giving way to the Peace; that the past was being buried beneath the present and the hopes for the future; that for good or evil, in Central and Eastern Europe as in Western Europe, the political and economic structure of the new Europe had now taken shape in a form likely to remain more or less unchanged for many years to come. The League was adding to its prestige and establishing a platform and centre at which compromises could be hammered out. In London, the British Government had at last succeeded in getting the French and Germans round a table to agree to proposals on the Reparations question, which at the time seemed to be practical. The British Treasury was preparing to anchor the £ to gold and so provide the essential financial foundation for world recovery, and, as we have seen in Chapter V, the Locarno agreements were in train. So much for the general survey of the gradual pacification of Central and Eastern Europe. By 1925-26 the molten streams of peoples liquified in the furnace of war seemed to be solidifying in the new national moulds, the passions were cooling, hope was reviving, the troubled times seemed to be at an end.

## CHAPTER XI

### THE U.S.A. AND WORLD AFFAIRS

"I never knew any man in my life who could not bear another's misfortunes patiently, like a Christian."

POPE (*Thoughts on Various Subjects*).

"Like the watermen that row one way and look another."

BURTON (*Anatomy of Melancholy*).

#### I. *The Lost Leader*

ON October 15th, 1918, a few days before the elections for Congress in the U.S.A., and a few weeks before the Armistice in Europe, President Wilson issued an appeal to the electorate, in which he called upon them to return a Democratic majority to the Senate and House of Representatives.

This was a political blunder. The prosecution of the War had become a national effort in the U.S.A. and this attempt on the part of Wilson to suggest that if the Republicans were returned it would imply a lack of confidence in himself, did much to break up the unity of the national front which had permitted the President to declare war in 1917 with the whole-hearted approval of the vast majority of the nation. In fact, his appeal met with no success. A Republican majority was returned in both Houses.

Congress assembled and the President announced his intention of proceeding in person to Paris accompanied by four peace commissioners, three of whom were Democrats; none were Members of Congress.

The activities of the President at Paris up to the time when he returned to America to deal with the ever-growing opposition to his policy have been described in Chapter IV. On September 20th, whilst stumping the country in support of the Treaty which embodied his heart's desire—the Covenant of the League—Woodrow Wilson was

struck down by paralysis. He had refused to accept reservations of the Treaty desired by the Republican group in the Senate, who held that "no American soldiers or sailors must be sent to fight in other lands at the bidding of the League of Nations." After stormy debate the Senate refused to ratify the Peace Treaty (November 19th, 1919) by the necessary two-thirds majority, the voting being 55 in favour, 39 against.

It was an epoch-making decision, for with the rejection of the Treaty went also all hopes of obtaining American support for the scheme by which Great Britain and the U.S.A. guaranteed France against attack by Germany.<sup>1</sup> For the first, but not the last, time in the post-War period, Frenchmen had cause to doubt the wisdom of relying upon foreign pledges for the maintenance of their security.

At the presidential elections in November 1920 the Republicans gained a smashing victory with a majority of about seven million votes and an electoral majority of 404 against 127. Their successful candidate was Mr. Harding, a conservative and unimaginative man, weak in character and commonplace in ideas; a very different character from that of the doctrinaire idealist whose visions had fired the imagination of the common people in many lands but whose lack of political acumen caused him to die, half-forgotten, on February 4th, 1924, a prophet rejected by his own people. He is dead, but his work lives on. Woodrow Wilson must be numbered amongst the select company of men who at one time or another in history have combined the holding of high public office with a clear realization of the overwhelming importance of the problem of MAN and HIMSELF. The lofty idealism which inspired his policies evoked a wide response during the brief period in which the exhausted nations gazed with genuine horror upon the wreckage of war, but this emotional phase soon passed and nowhere sooner than in the U.S.A. It was Wilson's tragedy that he never understood the limitations of the common man for whose salvation from war he laid down his life.

<sup>1</sup> See p. 105.

*2. The Washington Conference*

In 1920 the American people desired eagerly to disentangle themselves from the European adventure and revert to their traditional attitude of isolation—an attitude quite fictitious unless the South American continent and Central America be regarded for purposes of this definition as being within the natural sphere of American activities. However, hardly had the U.S.A. retired from the stage of world politics by the European exit than she found herself making a new entrance through the Far Eastern door. This event was brought about partly by the fact that in 1920 the centuries-old struggle between great nations for sea-power was assuming a new form; partly by the nature of Japanese foreign policy.

When the German battle fleet surrendered for internment to Admiral Sir David Beatty and the British-American battle fleet at Rosyth, the stage upon which the struggle for sea-power had been enacted revolved. The Admiralties saw, not the shallow and narrow waters of the North Sea in which, since 1906, Germany and Great Britain had contended, nor did they see the blue waters of the Mediterranean where British and French had struggled in the time of Nelson and Napoleon.<sup>1</sup> Instead of these restricted and historic waters the vast expanse of the Pacific Ocean came into view. This huge area, bordered by the British Empire (Australia, New Zealand, Straits Settlements and Hong Kong), South America, the western coast of the U.S.A.,<sup>2</sup> the Far Eastern possessions of Russia, the Japanese Empire and the coasts of China whose teeming millions send their produce down the junk-laden rivers to the ports of Tientsin, Shanghai, Amoy and Canton, was already the home of two of the three remaining battle fleets in the world—those of Japan and the U.S.A.<sup>3</sup> The third battle fleet, that of Great Britain, could not go to the

<sup>1</sup> Or long ago Greek and Persian, then Roman and Carthaginian, then Christian and Infidel.

<sup>2</sup> The American colony of the Philippine Islands also in the Western Pacific.

<sup>3</sup> One of the reasons why the Americans built the Panama Canal was in order to be able to move their battle fleet from the Atlantic to the Pacific.

Pacific because it had no base in those waters; Hong Kong was only suitable for cruisers. The great North Sea base of Rosyth, only partially completed in 1916 when it received the damaged ships homing from Jutland—was still uncompleted at the end of the War. But in March 1925 the British Admiralty, assisted by financial contributions from the Australian Government, began the construction of a great naval base at Singapore in order to base there a fleet which could guard the approaches to India, the Straits Settlements and Australia against attack from the north—the direction of Japan. Pending the completion of the Singapore base, half the British fleet was moved to the Mediterranean, ready to go East through the Suez Canal. It was clearly assumed by the makers of war plans that the Trafalgars and Jutlands of the future would be fought east of Singapore.

This post-War concentration of British naval activity in the Pacific Ocean, together with the aggressive foreign policy of Japan which was its cause, were the considerations which influenced the U.S.A. in her decision to intervene once more in world affairs.

It was by this time obvious that Japan intended to become the great Island Empire of the Pacific—an intention to be carried out by force, if necessary. A summary of the time-table of the rising sun of westernized Japan up to 1920 reads as follows.<sup>1</sup> In 1895 she defeated China; in 1905 she beat Russia, and then took the latter's place in Manchuria; 1910 was marked by the annexation of Korea. In 1914 Japan attacked and captured the German base of Tsingtau in Shantung Province, and extended her hold on most of the Province. In 1915 the notorious and infamous "twenty-one demands" were inflicted on China.<sup>2</sup> In 1916 secret treaties were signed with the Allies, by which Japan agreed to allow China to come into the War on condition that the Allies allowed Japan to retain the Chinese Province of Shantung after the War. In 1919 Japan blackmailed President Wilson by threatening to wreck his League of

<sup>1</sup> See Vol. II for some more of the time-table.

<sup>2</sup> By which Japan endeavoured to establish a virtual protectorate over China and consolidated her position in Manchuria.

Nations scheme if he did not ignore Chinese protests concerning the Japanese occupation of Shantung.

In 1921 the Americans viewed with alarm not only the possible perils to world peace of Japanese expansion and ambitions in the Pacific, but they also saw a danger of a naval race between Great Britain and the U.S.A. America's participation in the War had made her conscious of her strength as a world Power, and her experiences of the British naval blockade before she entered the War had convinced her that, in order to ensure the "freedom of the seas" for her commerce in time of war, she must have a navy equal to that of Great Britain and her Dominions. Could this equality be obtained by agreement, or must it be reached by winning a building race? The British Government was under no delusions as to the financial ability of the U.S.A. to outbuild Great Britain, but there was also a genuine feeling in both countries that it would be a shocking scandal if, immediately after the conclusion of the war to end war, the two English-speaking peoples were to begin a naval armaments race. Such were the various reasons which explained why, on November 12th, 1921, the representatives of Great Britain, the U.S.A., France, Japan and Italy sat in their places round a table at Washington as Mr. Hughes, the American Secretary of State, rose to his feet to make the opening speech at a Conference convened on August 11th, 1921, by the U.S.A. in order to discuss "limitations of armaments and other problems which have arisen in the Pacific area." A few hours later a sensation was travelling round the world. Even to-day, writing many years after that moment, years of disappointment to those who hoped that substantial progress towards real peace might be achieved within a lifetime, one can by reading Mr. Hughes's speech still recapture a memory of the thrill which it aroused in the hearts of the common man all over the world. For Mr. Hughes, instead of uttering the platitudinous politenesses which are common form on these ceremonial occasions, actually laid all his cards on the table. He said: "One (naval) programme inevitably leads to another, and if competition continues

its regulation is impracticable. There is only one adequate way out, and that is to end it now."

He then proceeded to astonish the assembled delegates by making definite proposals, as follows :

- (1) All battleship-building programmes to be stopped at once.
- (2) Certain older ships to be scrapped at once.<sup>1</sup>
- (3) That no new battleships be built for ten years.
- (4) That no battleship be more than 35,000 tons.
- (5) That the ratio of the naval strengths of Japan, Great Britain and the U.S.A. be represented by the figures 3, 5, 5.

There is no space in this book to describe the negotiations which then began, of how the British tried, but failed, to secure the abolition of submarines, advancing as justification of their argument the curious contention that they were "inhuman."<sup>2</sup> Of how the French insisted on retaining submarines and refused to allow cruisers and destroyers to be included in the Treaty for the reduction of strengths. Nor is this the place where we shall discuss whether, in fact, disarmament conferences are the best way of dealing with the problem of war. It must suffice to say that, thanks to the business-like attitude of the American Government, the proposals as regards battleships were written into a Five Power Naval Treaty, and thus all danger of an armaments race between Japan, Great Britain and the U.S.A. was averted for the time being, and some saving in naval expenditure was effected.<sup>3</sup>

<sup>1</sup> The British Empire to scrap 23 ships (built and building) of 583,375 tons; U.S.A. to scrap 30 ships of 845,740 tons; Japan, 17 ships of 448,928 tons.

<sup>2</sup> The British Admiralty has constantly advanced this remarkable argument. All war is inhuman, or rather it is an unpleasant form of human action. The real reason, as foreigners know very well, for the British desire to abolish submarines is the dependence of Great Britain on overseas supplies and our experience with the U-boats between 1914-18.

<sup>3</sup> Not as much as most people believed, because the Washington Conference was persuaded by the British Admiralty to limit cruisers to 10,000 tons. This size at once became the regulation size, and dozens of this over-large, expensive and useless ship have since been built. Soon afterwards the British Admiralty saw their mistake, and have been trying ever since that date to make fashionable smaller and less expensive cruisers. The most important articles of the Washington

So much for the naval side of the Washington Conference. We must now consider its political activities. From this point of view the American Government had called the Conference in order to see what could be done to put a check on Japanese ambitions in China, ambitions which were the cause of naval competition in the Pacific and seemed as likely to lead to a great war as had the foreign policy of Germany in the years previous to 1914. The Conference led to a series of treaties and resolutions which pledged the European Powers, the U.S.A. and Japan to respect each other's possessions in the Pacific; to respect the independence of China and not take advantage of her weakness to try "to cut up the Chinese melon." The Powers promised to help China to reorganize herself and they promised that in giving this help they would not exact a price which would make China pray to be delivered from her friends. The Japanese were obliged to leave Shantung Province, but they retained the special position in Manchuria they had taken from the Russians and reasserted when they put their twenty-one demands to China in 1915.

One of the treaties mentioned above was "The Four Power Treaty of December 13th, 1921," which pledged its signatories (the U.S.A., British Empire, Japan and France) to respect each other's insular possessions in the Pacific. But it did more than this. It laid down that any question of controversy in Pacific affairs was to be the subject of a joint conference; more important still, the Treaty superseded the Anglo-Japanese alliance.

This alliance, begun in 1902, renewed in 1911, had been concluded to meet certain pre-War conditions when Japan, in return for protection against any Western interference with her designs in Asia, undertook to look after British interests in the Far East and so permit Great Britain to concentrate her fleet against Germany in the North Sea.

In 1921 the people of the U.S.A. looked upon the Anglo-Japanese alliance with "deep concern," although the British

Government had stated that the U.S.A. had been excluded from "the scope of hostile action" under the alliance agreement. The alliance, therefore, stood as a bar to those close and friendly relations with the U.S.A. which the British Government desired to cultivate. Nor was it liked by the Canadians. The United Kingdom Government's position was difficult, since, although it was clear that the alliance had to go, Great Britain did not desire to affront Japan. The Japanese recognized the facts of the case and gave way gracefully, but smooth speeches could not conceal the fact that Great Britain had now placed herself on the side of the U.S.A. in Pacific affairs. On the other hand, the Japanese gained one great concession at Washington in the Five Power Naval Treaty already mentioned, since it was agreed that neither Great Britain nor the U.S.A. should alter the existing strength of any naval base in certain areas. The practical effect of this clause in the Treaty was to ensure that Japan could not be menaced by the establishment of a great naval base close to her home waters. The British Admiralty was careful to see that the area to which this agreement was applicable did not embrace the new base being built at Singapore.

It seemed then, that by 1922 the Washington Conference had successfully put the problems of the Pacific into cold storage. Europe at that time was still in the throes of the Franco-German dispute over reparations, the Near East was yet to be dealt with by the Allied Powers, but a naval armaments race between the U.S.A. and Great Britain had been averted, and in the most diplomatic manner the U.S.A. and Great Britain had bound over Japan to be of good behaviour towards her vast but disorganized neighbour, the Chinese Republic. The New World could at least claim—or so it seemed in 1922—that it had averted the danger that the seeds of a great war in the East would germinate before the Europeans had finished harvesting the crops of their Great War in the West.

We have found in our examination of the various problems which perplexed men both in Europe and the outer world that in and about the period 1926 there seemed

to be in each case a remarkable improvement. The section we have just completed concludes on an apparently satisfactory note in 1922, and it is natural to inquire whether the Pacific outlook was still cloudless in 1926.

The answer is that the naval agreements concluded at Washington were being maintained, that Japanese policy in Asia was quiescent, but that considerable ill-feeling between Japan and the U.S.A. existed as a result of the Exclusion Clause in the American immigration restriction laws.<sup>1</sup>

The Pacific was quiet, but with a quietness which might be the calm before the storm.

### *3. Immigration Restriction*

Although the subject of this section was a matter which caused tension between the U.S.A. and Japan during the years 1924-26, it had a far wider significance than that of its repercussions in the Pacific Ocean. The reversal by the U.S.A. of an immigration policy to which she had adhered for nearly a century was an event of world-wide importance.

The British type of free trade world system which has been described in Chapter I was "free" not only in respect of the movements of capital and goods, but also in the movements of men. It was an essential part of the whole structure that the overseas countries should both be financed and peopled by the European countries.

The following figures show the extent to which during the nineteenth century the U.S.A. played her part in this system. From June 30th, 1820 to June 30th, 1920, 33½ million immigrants entered the U.S.A., and it was estimated that in 1920 the population of the U.S.A. would have been 49 million had there been no immigration; in fact the population was nearly 106 million.

During the first decade of the twentieth century the annual flow of humanity into the U.S.A. exceeded one million persons.

<sup>1</sup> For particulars see next section.

A word as to the racial composition of this stream. From 1820 to 1880 it came overwhelmingly from the British Isles (including Ireland) and Germany; but during the last thirty years of the period under review, Italy, Austria-Hungary and Russia were the main sources of supply.

The facts set forth in the following table<sup>1</sup> speak for themselves:

Year	Total No. of Immigrants	Italy (a)	Austria- Hungary (b)	Russia (c)	Total (a) (b) and (c)	Total other Countries
1892	579,663	61,631	76,937	81,511	220,079	359,584
1898	229,299	58,613	39,797	29,828	128,238	101,061
1907	1,285,349	285,731	338,452	258,943	863,126	402,223
1914	1,218,480	283,152	278,152	255,660	817,550	400,930

After the War the population problem in the U.S.A. seemed to lead to three conclusions. Firstly, America was filling up. With the last Indians confined to reservations, with the grant of "free land" no longer feasible, with the frontiers of 48 states demarcated, the U.S.A. had come of age. Secondly, the Anglo-Saxon-Teutonic composition of the nation was being threatened by the Slav and Latin invasion. Thirdly, the controversies in the U.S.A. during the period 1914-17 concerning her attitude to the War had revealed to the Anglo-Saxon minority, who still in fact controlled the destinies of the U.S.A., that there was no such thing as an American nation but only a cocktail of races.

The American Government reached the conclusion that it was time to call a halt and to cut off the flow of immigrants before it was too late to prevent those so-called inferior races from permanently affecting the whole cultural, social and material standards of American life.

In 1921, and again in 1924, Congress passed Immigration Acts. The second act was based on the experience gained

<sup>1</sup> See *Survey of International Affairs*, 1924. A. Toynbee, p. 89.

between 1921 and 1924, and whilst founded on the same principle as its predecessor, it very materially restricted the already reduced flow. The admission of immigrants was regulated by a quota system through which the number of new arrivals to be admitted of any nationality was to be limited to a percentage (2 per cent. in the 1924 Act) of the number of persons of that nationality resident in the U.S.A. in 1890.

The 1924 Act limited the maximum number of immigrants to 164,667. Under the 1921 Act it had been possible for 357,803 persons to enter the country.

The date 1890 was chosen for the special purpose of discriminating against the Italians, Central Europeans and Slavs, since, as may be seen from the above table, it was not until after that census date that these immigrants began to cross the Atlantic in great quantities. The drastic effect of this law will be realized when it is noted that whereas in 1914, 283,152 Italians had entered the U.S.A., the quota announced for Italy in 1924 was 3845.

Some of the European countries, especially Italy, bitterly resented this change in American policy, but they were helpless, as the control of immigration was clearly a domestic issue upon which a sovereign state was entitled to behave as seemed best in its own eyes. It is true that Italy convened an Emigration Conference at Rome in May 1924, but this gathering, though attended by representatives of fifty-nine countries, including the U.S.A., was obliged to confine itself to technical questions; "fundamental problems were left untouched<sup>1</sup> because the points of view of the countries of emigration and immigration differed too widely."

There remains to be considered the question of Japanese immigration into the United States.

The 1924 Act, though primarily designed to control certain categories of European immigration, also contained a clause which virtually excluded from entry into the U.S.A. all Japanese and other Asiatic nationals, except those belonging to a few privileged classes. The regulation of Japanese entry into the U.S.A. had hitherto been arranged

<sup>1</sup> *Survey of International Affairs*, 1924, p. 126.

by a gentleman's agreement<sup>1</sup> dated 1907, by which the Japanese voluntarily agreed only to issue passports to a total number to be approved by the American Government. The exclusion clause in the 1924 Act was to supersede this agreement. The American Government was pressed to put Japan on the quota list—a concession which would have limited the entry of Japanese to about 200 per annum. Even Mr. Hughes, Secretary of State, told Congress that if it persisted in passing the exclusion clause it would “largely undo the work of the Washington Conference.”

The Japanese Government, which bitterly resented the racial discrimination implied in the clause, sent a note to Washington in which occurred the expression “grave consequences upon the otherwise happy relation between the two countries.” But the Californian interests—there were about 100,000 Japanese in that state—carried the day, the exclusion clause became law and a wave of fury swept across Japan. Although the excitement died down, the grievance, the affront to national pride, remained.

This is the place to remark that the South American republics showed no inclination to follow the lead of the U.S.A. in restricting and selecting immigration. It is possible that in the future the question of Oriental immigration into South America may cause anxiety to the United States.

We have now considered the foreign policies of the U.S.A. in regard to the problems of the Pacific, including that of naval armaments, and to immigration. There remains one more great subject of world interest in which the U.S.A. played a dominant part during the period now under review. It was the question of war debts.

#### 4 (a). *War Debts*

Much as the Americans, after their rejection of the Treaty of Versailles, might wish to dissociate themselves from European affairs, they were faced with the awkward

<sup>1</sup> So-called, presumably because sovereign states are not normally expected to behave towards each other like gentlemen.

fact that these same Europeans were their debtors for an astronomical number of dollars which had been used to finance the War. What was to be done about that? President Harding was pledged to economy; some debt-collecting seemed to be indicated.

The question of the monies due at the end of the War from the Allies to the U.S.A. was inextricably connected with the debts contracted between the Allies and it was also, in fact, connected with the problem of reparations. This last point was as strenuously asserted by France as it was denied by the U.S.A. The British position was, as usual, in the middle ground. First, as to the origin of the debts.

Very soon after the beginning of the War the borrowing began and, as in the Napoleonic Wars, it was to London that the continental Allies of Great Britain looked for help. France was also a lender, particularly to Russia and Belgium.

Up to the date of the American entry into the War (April 1917), the Allies raised such funds as they could by open-market operations in America, either by floating loans, selling American securities held by their nationals, or shipping gold. The purpose of the Allies was to raise credits in the U.S.A. which could be used for the purchase of munitions of war, raw materials and foodstuffs.

By 1917 the financial situation of the Allies was very serious, and when in April 1917 Congress authorized the American Treasury to advance monies to the powers associated with America in the War up to a limit of \$3,000,000,000,<sup>1</sup> one of the most pressing of the many anxieties of the Allies was removed. The figure mentioned above was raised by stages to \$10,000,000,000 (ten milliard dollars). By the Armistice the U.S.A. Government had advanced approximately 9½ milliards of dollars. To this figure must be added certain post-Armistice lendings, which brought the sum to \$10,338,058,352. The distribution of the bulk of this money is shown in Table I.

<sup>1</sup> Approximately £600,000,000—the exchange rates ruling were fictitious.

# Our Own Times

TABLE I \*

LOANS MADE BY THE U.S.A. UP TO JUNE 30TH, 1919  
(in millions of £1 at \$5 = £1) <sup>1</sup>

State	Total Advances	Total Debt as subsequently funded
	£ Million	£ Million
Armenia	2.4	..
Austria	4.8	6.4†
Belgium	76	83.6
Cuba	2	Repaid
Czechoslovakia	18	23
Estonia	2.8	2.8
Finland	1.6	1.8
France	681	805
Great Britain	855	920
Greece	3	4
Italy	329.6	408
Jugoslavia	10.4	12.6
Latvia	1	1.2
Lithuania	1	1.2
Poland	32	35.8
Rumania	7.6	9.0
Russia	38.6	..
Total	<u>£2066.8</u>	<u>£2314.4</u>

\* Borrowers of less than £1 million are excluded.

† Repayment deferred till 1943.

In Table II, p. 235, will be found a similar approximation to the nearest £1 million in each case of the debts due to Great Britain.

<sup>1</sup> This rate of \$5 = £1 is chosen as being that ruling in 1934. Between 1916-1919 the rate was pegged at \$4.76 = £1. During 1922 the rate rose from \$4.21 to \$4.63. It had fallen to \$3.20 when the peg was removed.

# The U.S.A. and World Affairs

## TABLE II

LOANS MADE BY GREAT BRITAIN  
(Figures to the nearest million pounds)

<i>State</i>	<i>Total Advances</i>	<i>Total Debt as subsequently funded</i>
	<i>Million</i>	<i>Million</i>
France	446	600
Russia	483	783*
Italy	370	560
Jugoslavia	22	26
Rumania	16	18
Portugal	17	20
Greece	16	21
Belgium	90	99†
Exact Total	<u>£1,460,241,000</u>	<u>£2,127,747,000</u>

\* Estimated value in 1927.

† This debt taken over by Germany.

In addition to these loans Great Britain lent £45 million to twelve countries during the post-Armistice period.

France was also a creditor as well as a debtor in the matter of inter-Allied debts.

In an official statement showing the position as on December 31st, 1920, France claimed that she was owed approximately 14 thousand million francs. This figure included a debt of 7 thousand million due from Russia, but does not include 2731 million lent by France to Belgium—a debt transferred to Germany by the Treaty of Versailles. The position of the principal creditors and debtors can be summarized as follows :

The U.S.A. was owed \$4600 million (£920 million approx.) by Great Britain, and \$4000 million (£805 million approx.) from France.

Great Britain was owed about £2200 million (twice her debt to the U.S.A.) of which £600 million was due from France.

France was owed about £100 million, of which £50 million had been lent to Russia.

4 (b) *Funding Operations.*

The preceding section has shown the ledger figures of the inter-Allied debt situation as it existed in 1920, but when it came to balancing accounts various considerations of a non-statistical nature claimed attention.

The European debtors took up the attitude that the creditor countries in general, and the U.S.A. in particular, had only been contributing in cash a form of support to the Allied cause which less wealthy nations had provided in the shape of flesh and blood. This school of thought favoured all-round cancellation as being morally sound and economically expedient.<sup>1</sup> The French were believers in this theory, provided reparations were left untouched. The British were both creditors and debtors on a large scale, with the balance on the credit side, but though ready to meet their obligations *vis-à-vis* the U.S.A., the British favoured cancellation, on the grounds that these enormous non-commercial debts were a millstone round the neck of the world in its attempt to recover from the waste of the War. The British attitude was expressed in the famous Balfour Note of August 1st, 1922.<sup>2</sup> In this document Lord Balfour reminded the debtors of Great Britain that the U.S.A. had requested Great Britain to fund and repay her debt, and he pointed out that in these circumstances Great Britain must consider her rights as a creditor. Each government owing money to Great Britain was requested "to make arrangements for dealing to the best of their ability" with their debt to Great Britain. The Note continued to the effect that the sum Great Britain would require from her debtors would depend solely upon the amount Great Britain would have to pay the U.S.A. It could be no less; it would be no more. In its concluding paragraph the Note linked up war debts with reparations by stating that His Majesty's Government would be prepared to abandon their claims to all reparations from

<sup>1</sup> The Bolsheviks had advocated "Peace without annexations or indemnities" in 1917.

<sup>2</sup> Command 1737 of 1922.

Germany and repayment of debts from Allies if such "renunciation formed part of a general plan by which this great problem (War Debts and Reparations) could be dealt with as a whole and find a satisfactory solution."

The American point of view concerning the debts was naturally somewhat different. A section of that public opinion favoured cancellation or substantial reduction, partly on grounds of humanity, and partly because it was realized by certain American industrialists that if the Allies were to pay in goods, the American tariff would have to come down. But to the average American the issue seemed simple enough, and to be expressed in the following proposition :

- (1) I lent the money to my government ; my government lent the money to the Allies ; if they default, who pays me ?
  - (2) Assuming cancellation or reduction, why should I pay for the cost of a war started and conducted by these quarrelsome Europeans ?
  - (3) The Europeans say they are bankrupt, but I notice that they are still spending enormous sums on armaments, and France is lending money to her Central European allies.
  - (4) The Europeans are squeezing the Germans ; why should they squeal if I press them ?
  - (5) They hired the money, didn't they ? <sup>1</sup>
- . . . . .

On February 9th, 1922, Congress set up the "World War Foreign Debt Commission," with instructions to collect the money not later than 1947 and to insist upon a rate of interest at not less than  $4\frac{1}{4}$  per cent.

Both the British and French prepared to send emissaries to America and it was now that the British made clear their attitude on the subject of payments and receipts in the Balfour Note already quoted.

The Note had had a bad reception alike amongst Britain's

<sup>1</sup> President Coolidge's famous aphorism.

European debtors and her American creditors. In the U.S.A. it was believed to be an attempt to prejudice the forthcoming negotiations and to link war debts with reparations. In France the suggestion in the Note that the French should fund and settle their debt to Great Britain was bitterly resented. France at this time was sliding into isolation over the reparations dispute<sup>1</sup> and regarded the U.S.A. not only as the perfidious author of a League Covenant she had refused to honour, but also as a nation which had failed to carry out her undertaking to join with Great Britain in a special Security Treaty for France.

The French situation was very difficult. France was beginning to see the hope of gigantic reparations vanishing for ever; she had spent immense sums on her devastated areas and credited them to reparation receipts; the franc was very shaky, yet she could not repudiate her debt. She therefore worked steadily to link reparations with war debts. This attitude relieved France—in her own view—of making any payments of war debts until she had recouped herself through reparations, and it also seemed to make Great Britain and the U.S.A. directly interested in the business of squeezing reparations out of Germany.

The French mission to Washington accomplished nothing beyond outlining the French case, but a British delegation, headed by Mr. Baldwin, was more statesmanlike, or more foolish. The appropriate qualification has been a matter of controversy in Great Britain ever since. Mr. Bonar Law, then British Prime Minister, was shocked to learn that his delegate had committed Great Britain to make annual payments of approximately £33,000,000 (\$161 million) from 1923 to 1932, and £38,000,000 (\$185 million) from 1933 to 1984.<sup>2</sup> In favour of the terms of this agreement it should be remembered that at this time Great Britain was struggling to restore the atmosphere of the pre-War economic world,<sup>3</sup> a world which revolved on the axis of

<sup>1</sup> See pp. 122 *et seq.*

<sup>2</sup> These onerous terms were actually better than those Congress had laid down as the minimum acceptable.

<sup>3</sup> For a full account of the British effort, see Chapters XV and XVI of this volume.

the sanctity of contract, and that close and cordial relations with the U.S.A. was an essential feature of British foreign policy. Furthermore, it was vital, if Great Britain was to resume her pre-War position as the world's banker, that her credit should be above suspicion.

On the other side, it is argued that a little less British honesty and a little more French realism would have secured better terms without losing American friendship. It is also said—and it is true—though it could hardly be foreseen by the British delegation, that when Great Britain made this, the first settlement, she shackled upon the body economic of the world a debt transfer problem destined to have grave consequences. Had Great Britain repudiated her debt in part or whole, the history of the next ten years might have been very different. As it was, the British settlement was used as a lever and a model by the U.S.A. in dealing with her other debtors with, however, the significant difference that in their case a new consideration crept into the negotiations—the “capacity to pay.” So when all—or nearly all—the debts to the U.S.A. were funded and settled, including even an agreement (April 29th, 1926) with the elusive French, the following table could have been compiled :

COMPARISON OF RATES OF INTEREST IN TERMS OF SETTLEMENTS BETWEEN SOME DEBTOR COUNTRIES TO U.S.A.

<i>Country</i>	<i>Average Rate of Interest</i>		
Great Britain	.	.	$3\frac{2}{5}$ per cent.
France	.	.	$2\frac{1}{3}$ „
Belgium	.	.	2 „
Italy	.	.	1 „

It should also be noted that in the case of France, there was to be a moratorium of interest for five years and then the rate was to start at 1 per cent. and rise to  $3\frac{1}{2}$  after forty years. In the case of Italy there was to be no interest for five years, after which it was to be  $\frac{1}{8}$  of 1 per cent. for ten years.

Although, strictly speaking, it does not fall within the

scope of this chapter, it may be as well to note here that by the end of 1926 Great Britain had made agreements for the settlements of the debts due to her by France, Italy, Rumania, Portugal, Yugoslavia (in 1927) and Greece (1927). In each case Great Britain undertook, in accordance with the principle of the Balfour Note, to reduce the agreed figure if her total receipts from Reparations and Inter-Allied Debts exceeded the sum she was due to pay the U.S.A.

We can conclude this Chapter by pointing out to the reader who has recoiled from its statistics that in this matter of Inter-Allied War Debts, as in many other problems, we have noticed the period "1926 and thereabouts" marked the end of a time of controversy. It was then believed by many people that these debts were settled and removed from the field of controversy. True, certain economists, bankers and others of that sort suggested that it was one thing to make settlements on paper and quite another thing to transfer these great sums across the exchanges without upsetting the delicate adjustment of the world's economic system still weak from the strain of war; but there are always skeletons at the feasts which celebrate international agreements.

It is perhaps permissible to infer that the real intentions of France as regards paying her debt both to Great Britain and the U.S.A. were always strictly conditioned (notwithstanding the theoretical distinction between reparations and inter-Allied debts) by the behaviour of Germany in the matter of reparations.

### *5. Latin America*

We have moved during the last few chapters ever further afield from our post-War starting-point of the Hall of Mirrors at Versailles. We have been to the Rhine and paused at Locarno; we have travelled tortuously through the Baltic Provinces, Central Europe and South-Eastern Europe; we have looked at Russia. Then we crossed the Atlantic and from the U.S.A. made contact with the Far East.

What of South, or as it is often called, Latin America?

When the U.S.A. came into the War on April 6th, 1917, and thereby broke away from her traditional attitude of non-interference in European affairs, most of the states of Central and South America followed her example and broke off relations with the Central European Powers. Mexico, Chile and the Argentine were exceptions and remained neutral. During the latter stages of the War the pressure of Anglo-American sea-power put the South American states at the mercy of the Allies, and the economic activities of South America as a whole, willingly or otherwise, were welded into the blockade policies.

The governing factor in the political relationships between the South American states and the U.S.A. on the one hand and Europe on the other had for long been the existence of the Monroe Doctrine which, as set forth by its author in 1823, laid down: (1) There shall be no future colonization in America by European Powers. (2) No monarchies in America. (3) The U.S.A. would guarantee the independence of the South American states against European aggression.

In the course of the early years of the nineteenth century several developments of importance became clear. Firstly, the U.S.A. had come to dominate Central America and the Caribbean round and about the Panama Canal Zone. Secondly, Mexico in Central America and the great and growing republics in South America were becoming intensely suspicious of the claim of the U.S.A. to be their big brother. As President Wilson remarked to some Mexicans on 7th June 1918:

"We said—'We are going to be your big brother, whether you want us to be or not. . . . Now that was all very well so far as protecting you from aggression from the other side of the water was concerned, but there was nothing in it that protected you from aggression from us.'"<sup>1</sup>

During the War and immediately after that event the U.S.A. pursued a very active commercial policy in South America, and did so the more easily because of the inability

<sup>1</sup> See *Survey of International Affairs*, 1925, Vol. II. C. A. Macartney, p. 397.

of Great Britain to pursue her pre-War policy of South American investment to its customary extent.

The South Americans were much alarmed by this dollar diplomacy, and in fact looked to the League of Nations as an organization which might possibly be used to counteract U.S. influence. But even here the outlook was rendered uncertain from the point of view of South America because in an effort to meet Congress objections to the League, Article 21 of its Covenant had been drafted so as to leave untouched the validity of the Monroe Doctrine. The relationships between the South American states and the League during Our Own Times varied from time to time and from state to state, and will be described in the chapter on the League in Volume II.

Up to the impact of the world crisis and the effect of the price fall on the economic fortunes of the South American states<sup>1</sup>—all of which were raw material producing countries—events in that part of the world were not of great significance from the international point of view. For instance, the long-standing dispute between Chile, Peru and Bolivia over Tacna and Arica flared up again in 1920, and the U.S.A. undertook the thankless task of trying to settle this business. There were also a number of disputes concerning frontiers, such as those between Brazil and Bolivia, Costa Rica and Panama, Colombia and Panama, Colombia and Venezuela, Brazil, Colombia and Peru,<sup>2</sup> but these details must be excluded from this study.

Mention must, however, be made of the problem of Mexico which on several occasions nearly led to war between that country and the U.S.A., and was of some international importance because of the amount of foreign capital invested in that Central American state.

The revolution which began in Mexico in 1910 and overthrew the long dictatorship of Porfirio Diaz (1876–1911) was a nation-wide revolt against the exploitation of Mexican resources by foreigners, by the upper classes and by the Church. First President Carranza (assassinated

<sup>1</sup> See Chapter XVIII.

<sup>2</sup> See *Survey of International Affairs*, 1925, Vol. II, pp. 425 *et seq.*

1920) and then his even more radical successor, General Obregon, conducted a long struggle against the capitalist and vested interests which brought Mexico into conflict with the U.S.A. and Great Britain—especially the great American oil interests. When Obregon was succeeded in 1924 by President Calles (he signalized his accession to office by placing 500 generals on the retired list) the new President continued the policies of his predecessors which, broadly stated, had consisted of introducing revolutionary and confiscatory “reforms” calculated to eliminate private capitalist influence whether foreign or domestic. From time to time the Mexican Government would retreat a little in face of foreign protests, but on the whole the Mexican revolutionary programme as set forth in the new constitution of 1917 made headway, and in 1926 the government embarked upon an offensive against the vested interests of the Catholic Church.<sup>1</sup>

In summary, the importance of the Mexican revolution was that it reproduced on the American continent a type of upheaval analogous to that seen in Russia in Europe, and in China in Asia. A nationalist revolt led by a few politically conscious men, characterized by grave disturbances and excesses, anti-capitalist, anti-foreign, and dependent for its driving force upon the support of the long-oppressed and ignorant masses. It was but one indication and example of a world-wide revolt of the under-dog, a revolt accelerated in most parts of the world by the loosening of the foundations of established institutions which was caused by the World War. In Mexico, as in Russia and China, the local events were to be dwarfed upon the international stage by the tremendous happenings which accompanied and succeeded the world economic crisis of 1929-33.

We shall conclude this admittedly over brief note on the affairs of Latin America by observing that it seems probable that it is during the Times to Come rather than during Our

<sup>1</sup> Cf. the struggle between the Bolsheviks and the Orthodox Church, and Mustafa Kemal in Turkey and Islam (see p. 184). For further particulars, see Vol. II.

Own Times that the South American republics will play a great part in the story of human history. Their immense resources are as yet hardly exploited, whilst their rivalries, jealousies and political instabilities are probably less significant in the long-run than certain common factors likely to lead to unity.<sup>1</sup>

We must now travel still further afield in our investigations and, taking the whole world as the scene of our travels, review the first part of the post-War story of the British Commonwealth of Nations.

<sup>1</sup> The reader desirous of obtaining in compact form a factual account of the present conditions (1934) in South America is recommended to study "*The Republics of South America*," issued by the Information Department of the Royal Institute of International Affairs. This memorandum is a preliminary study for a full-scale Political and Economic Survey of South America now being made at Chatham House.

## CHAPTER XII

### THE BRITISH EMPIRE

The British Empire "considered as a whole, defies classification and bears no real resemblance to any other political organization which now exists or has ever yet been tried."

*From a Report of a Sub-Committee of the 1926 Imperial Conference.*

#### I. *The Third Empire*

THE British Empire, or British Commonwealth of Nations as it has lately become fashionable and, indeed, legally correct to term this unique political experiment (we shall use the shorter term), is no exception to the general rule that Our Own Times have witnessed great changes in the institutions of man. As we shall see towards the close of this study, it seems likely, or at any rate possible, that in the times to come very grave responsibilities will lie upon the shoulders of those whose duty it will be to direct Imperial policies, and if this be true especial interest attaches to the developments in the growth of the Empire during Our Own Times. When in the centuries to come the historian burrows down into the Imperial deposits, he will find, as Alfred Zimmern has pointed out, that in 1914 he has reached the top layer of the second British Empire. The Third Empire was conceived during the War, and when at Versailles the Dominions signed the Peace Treaties and joined the League as independent sovereign states, it began to take shape. The particular problem set to the Empire by the War was how to correlate a feeling in the Dominions that the political centre of gravity of the Empire must no longer be exclusively situated in Whitehall, with the fact that in matters of foreign policy and imperial defence the real burden usually lay heavy as ever upon the shoulders of Great Britain. In addition the general growth of nationalism and self-determination, the "decentralizing

desire," which was one of the products of the War, speeded up the development of various problems of self-government, notably in Ireland and India, which were already prominent in the pre-War period.

When His Majesty's Government in the United Kingdom issued an ultimatum to the German Government on August 4th, 1914, and twelve hours later declared war upon Germany, they acted both *de jure* and *de facto* for the British Empire. *De jure* because they declared war in the name of George V, King of Great Britain and Ireland, and the British Dominions Overseas, and Emperor of India, for at that time (1914) the legal possibilities of His Majesty being at war in one capacity and a neutral in another did not seem to have any practical importance. *De facto* because within a few hours of the declaration of war in London, the Overseas Dominions and the Indian Government hastened to assure the Home Government of their intention to offer troops, ships and treasure for the prosecution of the War.

The story of the Imperial Conferences held prior to the War reveals not only a progressive recognition by all concerned that the Dominions were independent of London in domestic affairs, but also a growing demand, illustrative of the growth of imperial solidarity following the period of the Boer War, for a closer co-operation between the Mother Country and the Dominions on matters affecting the Empire as a whole. A significant expression of this feeling is shown in the decision made in 1907 that regular Imperial Conferences, convened by the British Prime Minister, should be substituted for the sporadic "Colonial" Conferences previously held under the ægis of the Colonial Office. The demand took more concrete shape in various abortive proposals for some sort of Imperial Federal Constitution, and in the economic sphere by repeated demands for Imperial Preference. The question of Imperial Defence was much discussed, but since the burden of the matter lay upon the shoulders of the United Kingdom taxpayer, decisions were in practice made by the Home Government. Similarly, problems of foreign policy were

## *The British Empire*

dealt with in London. The Dominions in pre-War days were almost entirely concerned with their own internal development and, with the exception of Australia who looked apprehensively towards Japan and blessed the Anglo-Japanese alliance, these young and immature states were well content to leave the management of foreign policy in the experienced hands of the Foreign Office, Whitehall. Even Australia was obliged to limit her activities in "foreign affairs," to constant efforts to impress upon the Home Government her sense of the importance she attached to the White Australia question. Moreover, in considering the relationship between the Dominions and the Mother Country in pre-War years, it must be remembered that they were developing upon money borrowed on exceptional terms in the London money market. "The City" held the Dominions in fee and the control, though intangible, was very real.

By 1919 there had been great changes, psychological and material.

The following particulars extracted from *The Times* "Diary and Index of the War" illustrate the Empire's war effort in terms of army man-power.

### BRITISH EMPIRE ARMY CASUALTIES, 1914-1919

<i>Total British Troops</i>	<i>Casualties</i>		
	<i>Approximate Killed, Died of Wounds, Died</i>	<i>Approximate Missing and Prisoners</i>	<i>Wounded</i>
British Isles . 5,704,416	662,083	140,312	1,644,786
Canada . 640,886	56,119	306	149,733
Australia . 416,809	58,460	164	152,100
New Zealand 220,099	16,132	5	40,749
South Africa 136,070	6,928	33	11,444
India . . . 1,401,350	47,746	871	65,126
The Colonies 134,837	3,649	366	3,504
8,654,467	851,117	142,057	2,067,442

To these figures should be added the half-million (mostly citizens of the United Kingdom) who served afloat, and the 292,000 who were members of the Air Force in 1918.

Australian troops had fought on Gallipoli; Canadians, Dutch and English had campaigned side by side in France; Indians waged war in Palestine and Mesopotamia.

The Dominions had learnt in the bloody school of war that both for good and evil they were part and parcel of international society. Their representatives had sat in London as members of the Imperial War Cabinet,<sup>1</sup> and at the peace-making in Paris their status was virtually that of independent sovereign states. It was in this capacity that they adhered to the Treaty of Versailles and became members of the League of Nations.

To all outward appearance the only legal links which still bound the Dominions to Great Britain were the Crown and the common right of every British subject to carry an appeal to the Judicial Committee of the Privy Council.

In 1920 the chief problems of the British Empire or British Commonwealth of Nations, as it was officially termed after 1921, were firstly, the questions of self-government in Ireland and India; secondly, the problem of determining the constitutional composition of this post-War British Empire which, though beyond question a species of political unit in the society of sovereign states, was one whose make-up abounded in confusing paradoxes and contradictions. We shall discuss these problems in the order in which they have just been mentioned.

## *2. Ireland*

There is no space in this study to describe the unhappy story of Anglo-Irish relations during the nineteenth century. It must suffice to say that, to an Irishman it is the story of a

<sup>1</sup> An organization created for the purpose of giving Dominion statesmen a direct, continuous and effective share in the decisions taken by the British Government on questions relating to the foreign policy of the Empire as a whole.

small nation struggling continuously to free itself from the tyranny of England; whilst to an Englishman the Irish problem is one in which the unreasonableness of the Irish and their ingratitude for benefits received has at regular intervals exceeded the bounds of imagination. Both points of view are tenable, and hence an intelligent foreigner sees the Irish problem as one long and tragic misunderstanding. In 1910 the British Liberal Party, led by Mr. Asquith, announced its intention of making yet another attempt to settle this ancient dispute, and in due course introduced a Home Rule for Ireland Bill, which became law in 1914. The Northern counties of Ulster defied the efforts of the British Government to include them in the new state, an attitude in which they were encouraged by a mutiny of British army officers stationed at the Curragh. At this juncture the Great War broke out and possibly averted civil war in Ireland. The Irish constitutional Home Rulers, led by John Redmond, rallied to the support of Great Britain, and it was generally believed that when the War was over they would receive their reward. The extreme Irish Nationalists (Sinn Fein) continued their campaign for complete independence, a policy largely financed by American sympathizers, and in 1916 a rebellion broke out in Dublin, which was suppressed with considerable severity.

From that moment, which inspired W. B. Yeats in the phrase "A terrible beauty is born," the flames of Irish nationalism burnt with growing fierceness beneath the surface.

Sinn Fein established its own secret government with a parliament (Dáil Eireann) and succeeded to a very considerable degree in upsetting and supplanting the British administration. The British Government met force with force, and a terror began which, from the Irish point of view, was a war of liberation, but which to "The Castle" in Dublin appeared as a campaign against rebellion and murder. In 1920 the Home Rule Act of 1914 was superseded by a "Government of Ireland Bill," which established the Northern Counties (the six counties of Ulster) as a self-governing unit in local affairs.

The Irish "war" continued and was marked by hideous excesses on either side. Between January and June 1921 there were 147 guerilla warfare conflicts in Dublin alone. It was well said :

"We have two governments in Ireland and neither can protect us from the other." <sup>1</sup>

The British Government now realized (1921) that they must choose between one of two courses. Either Southern Ireland must be thoroughly subdued by force of arms or else she must be given Dominion status. The Sinn Fein Party were hard pressed and the War Office were prepared to guarantee the rapid conquest of the country, but more liberal councils prevailed and Mr. Lloyd George's Coalition Government entered into discussions with the "rebels." Delicate and difficult negotiations began between the British Government on the one side, and Mr. Griffiths and Michael Collins on the other. Mr. de Valera, whilst acquiescing in the negotiations, was adamant on the question of the oath, and was careful to preserve his line of retreat by refusing to proceed to London. From his point of view he avoided making the error which President Wilson had made when he went to Paris. The negotiations culminated in a Treaty signed on December 6th, 1921, conferring upon the Irish Free State the status of a self-governing Dominion. It was agreed that in case of doubt Canada should be regarded as the model.

The birth of the new Dominion was attended by bloodshed and strife, since Mr. de Valera, and those in Sinn Fein who followed his lead, stigmatized the Treaty as a great betrayal on the grounds that it included provisions for the oath of allegiance to the British sovereign. A bitter civil war broke out and raged for a year. Griffiths died and Michael Collins was slain by Irish hands. The pro-Treaty party, led by O'Higgins and Cosgrave, were determined to honour their pledges to the British Government, and though their policy was necessarily marked by incidents

<sup>1</sup> *Ireland*, by R. H. Murray and Hugh Law.

of immense personal tragedy, they ruthlessly suppressed the de Valera section of Sinn Féin. The history of Ireland is shadowed with tragedy; dark indeed are the shadows which were cast by the cruel fate which forced the constitutionalists to condemn to death and cause to be destroyed men like the gallant and romantic Erskine Childers who had served in the British navy against Germany and subsequently fought for Sinn Féin in the cause of Irish independence. In May 1923, de Valera gave the order to cease active operations although the Republican deputies, of whom forty-four were elected at the 1923 elections (against sixty-three supporters of Cosgrave), still refused to take the oath or their seats in the Dail. By July 1927 the Republicans were considering the desirability of co-operating in the work of the Dail as a necessary preliminary to gaining power by constitutional means, and talk was being heard of the possibility of compromise on the issue of the oath.

Was it possible that the Irish question could ever revive now that the Irish were rid of the English administration?

In Volume II of this book we shall find that Anglo-Irish relations lived up to their reputation of providing a never-ending problem. For the moment, we can conclude this sketch of Irish affairs during the first half-decade after the War by pointing out that Anglo-Irish relations were no exception to the general rule which permits us to select the period round about 1926 as one characterized by a general improvement in the world's political and economic outlook. The satisfactory manner in which the Irish question had apparently been laid to rest was of considerable importance to the British Government from the point of view of co-operation between Great Britain and the U.S.A. It will be recollected<sup>1</sup> that round about 1923-24 the British Government was anxious to act as a bridge across which the U.S.A. might be induced to return to co-operation in world affairs. Close friendship and co-operation with the U.S.A. was a cardinal objective of British foreign policy

<sup>1</sup> See p. 132.

after the War, and the establishment of the Irish Free State—an act generally considered in America as being a generous and complete fulfilment of Irish ambitions—removed a long-standing source of some ill-feeling between America and the United Kingdom of Great Britain and Northern Ireland.

### 3. *India*

#### (a)

In 1913, at the rise of the curtain upon "Our Own Times," fifty-five years had elapsed since the powers and functions of the East India Company had been transferred to the British Crown. During that half-century the progressive and dynamic dæmon of Western civilization had beat upon the social structures of the East, and India's peoples had not escaped the impact. On the contrary, British civilization, its trade, its justice, its ideals of self-government, its public works, its language, its literature and its educational system had been in part offered to, in part imposed upon the Indian Empire. In 1885 the Indian National Congress was founded as the organ of the Nationalist movement, and modern Indian problems began to take shape. Problems, not problem. In 1905 Japan defeated Russia. In 1911 the Chinese Republic was born. The East was counter-attacking.

India, that vast sub-continent, half as large as the U.S.A., inhabited by 352 million people, of whom 228 million are agriculturalists; India—repository of race and religion and language—(there are 240 million Hindus, 80 million Moslems, 13 million Buddhists—mostly in Burma—6¼ million Christians and 4¼ million Sikhs, and there are twelve important languages in use). India, where the expectancy of life of the new-born baby is 23½ years;<sup>1</sup> India—birth-place of Mr. Gandhi, the political-saint and saint-politician, and the lowly sweeper; India—the home of caste, of Rajahs, of fighting men, of Bengalis soft as the Punjabi is

<sup>1</sup> Because the infantile death-rate for all India (in 1923) was 173 per 1000 or over twice that in England and Wales.

hard; of men whose skin is near white and whose ancestry makes the proudest line in Debrett seem but a trickle in the stream of time; of black men and simple savage hill and wood men; of great merchant princes and industrialists and of sweated labour in the Bombay mills. . . . India! with the problem of adjustment of her communal differences; the problem of making a national unit of this heterogeneous swarm of humanity, a problem which was the result of the impact of western civilization upon the Indian people. When the British irrigated India, built her railways, gave her the *lingua franca* of English and the steel framework of a central government, they created the problem of Indian self-government. Interwoven with this all-Indian task is the question of the political and economic relationship between these millions in India and the electorate in Great Britain.<sup>1</sup>

The relations between the British Parliament and the inhabitants of the Indian peninsula are further complicated by the fact that one-third of the land, and between one-fifth and one-quarter of the people is ruled by native princes, some of whose domains are twice as large as England and Wales, some no larger than a small country estate. The relation between these princes and the King-Emperor as the Paramount Power is governed by treaty and their degree of independence varies enormously.

It is strange that the people of the United Kingdom watch with wonderment at the end of these our times (1934) a great experiment in the United States of America,<sup>2</sup> in apparent ignorance of the fact that for many years an even more daring experiment in government has been conducted in their name and upon their responsibility in a land only a few days' express flight from London.

(b)

The fact that Indian troops had fought in France in 1914 and later campaigned in Palestine and Mesopotamia,

<sup>1</sup> For a picture of the Indian scene see Simon Report, vol. i, Cmd. 3568 of 1930.

<sup>2</sup> See Vol. II.

coupled with the widespread feeling in Great Britain that the War was being waged for the cause of liberty and freedom, were circumstances which caused the British Government to take an important step forward in the development of Indian constitutional reform. It is noteworthy that India was represented at the Imperial Conference of 1917 and her representatives took part in the discussions which took place at that and subsequent conferences on such questions as imperial foreign policy, and inter-imperial constitutional relationships on an equal footing with the representatives of the Dominions. Ever since the Government of India was taken over from the East India Company in 1858, self-government had been accepted in principle as the ultimate objective of British rule. The War, and the widespread enthusiasm for the doctrine of "self-determination" which followed, served merely to accelerate the rate at which the principle was translated into practice.

The War broke up those foundations of nineteenth-century western civilization, which were already cracking in 1913, and the traditional British policy in India of slowly adapting their benevolent autocracy to the demands of Indian nationalism was no exception to the rule.

The Secretary of State for India, Mr. Montagu, made a declaration in the House of Commons on August 20th, 1917, in which occurred the words :

"The policy of His Majesty's Government, with which the Government of India are in complete accord, is that of the increasing association of Indians in every branch of the administration and the gradual development of self-governing institutions with a view to the progressive realization of responsible government in India as an integral part of the British Empire."

The Indian National Congress in December 1917 "expressed its grateful satisfaction" with this pronouncement.

The Secretary of State next visited India in order to ascertain how best to put into practice the promises made in the declaration. The result of this visit was the Montague-Chelmsford report which, published in July 1918, proposed

that a substantial share of the Government of India should be given to representatives chosen by an Indian electorate. These proposals were subsequently embodied in the Government of India Act of 1919, in connection with which the King issued a proclamation stating that :

“The Act which has now become law entrusts the elected representatives of the people with a definite share in the government and points the way to full responsible government hereafter.”

The reforms, which in their main features were only applicable to British India, consisted of a scheme based on a principle known as dyarchy—or division of rule. The Central Government remained entirely responsible to the British Parliament, though a representative central legislature capable of influencing the Viceroy and his Council was to be established.<sup>1</sup> This body was to consist of two Houses—a Legislative Assembly and an Upper House called the Council of State. In the Legislative Assembly two-thirds of the members were to be elected and one-third nominated. In the Council of State the Government had a permanent majority.

It was, however, in the provincial governments that great changes were proposed. Each province was to have an enlarged Provincial Legislative Council in which elected members would be in a majority. Subjects of government were divided into “Reserved” and “Transferred.” The former included police, justice, prisons, famine relief, migration, labour legislation and taxation; and the latter comprised Indian education, hygiene and public health, public works (including roads) and local government. These transferred subjects were handed over entirely to Indian ministers who were responsible to the State Legislature. Their regulations could not be disallowed by the Governor, and they could not be removed from office except on a vote of the Legislature endorsed by the Governor—

<sup>1</sup> In the Morley-Minto reforms of 1909 the embryo of a central government representative institution consisting of 60 members (35 nominated by the Governor-General and 25 elected) had been set up. It was replaced in 1921 by the new bi-cameral legislature.

in-Council. Within this limited sphere Indians were accorded full responsible government. Whereas with regard to the reserved subjects the ministers, whilst open to the criticism and advice of the Legislature, were not responsible to it, and, as was also the case in the Central Legislature, an adverse vote in the Assembly did not prevent a measure becoming law if the Governor-in-Council considered it was necessary for the general safety and welfare.

Finally, it was proposed that within ten years of the first meeting of the new Legislative assemblies, a review should be made of the whole state of Indian constitutional government.

On February 9th, 1921, the Duke of Connaught, inaugurating the new Indian Central Legislature, at New Delhi, read a proclamation from the King-Emperor, in which there was a passage as follows :

“For years, it may be for generations, patriotic and loyal Indians have dreamed of Swaraj for their Motherland. To-day you have the beginnings of Swaraj within my Empire, and the widest scope and ample opportunity for progress to the liberty which my other Dominions enjoy.”

In March of the same year a revised instrument of instructions from His Majesty to the Governor-General contained the following statement :

“For above all things it is Our will and pleasure that the plans laid by Our Parliament . . . may come to fruition to the end that British India may attain its due place among Our Dominions.”

Another stage had thus begun in the development of Indian self-government. The reforms of 1919 did not, however, satisfy the hopes of the Nationalists who had expected better things from the 1917 declaration.

The “moderate” Indian representatives decided to co-operate with the Government in trying out the new reforms,

but Mr. Gandhi and his friends announced in April 1920 that they would no longer co-operate with the British.

The repressive measures<sup>1</sup> undertaken by the British Government in order to subdue the terrorist activities of Indian extremists, and especially the tragedy of Amritsar in April 1919, created very unfavourable conditions for co-operation between the left wing Nationalists and the British Government. The Amritsar episode in which General Dyer ordered troops to open fire without warning upon an illegal assembly composed of an unarmed crowd of several thousand persons, with the consequence that 379 persons were slain and over a thousand were wounded, sent a shock rippling round the civilized world and did much to convince Indians of all classes that Great Britain was not sincere in her many pledges to grant self-government to India.

The Nationalists boycotted the new constitution in 1920, but at the second elections in 1923 a section of the party under Pundit Nehru sought election in order to wreck the constitution from within. The practical difficulties of working "dyarchy" were enormous, since in practice "reserved" and "transferred" subjects were often closely interlocked, but it was inevitable that the system should fail to live up to the expectations of its authors when to its inherent defects were added the bitterness of the struggle between the Nationalists and the British Raj. It is just conceivable that if the vast majority of active and politically conscious Indians had been willing to accept the reforms and work them, the history of India from 1921 to 1926 would have shown a real progress towards Indian self-government, but, in fact, it was at about this date of 1926 that in contrast with other parts of the world, the political state of India presented an unsatisfactory appearance, although even here there were signs that a group of moderate Nationalists doubted the wisdom of the obstructive attitude of Mr. Gandhi. Nevertheless the extremists were still a factor to be reckoned with by the British Government, and the Indian scene was darkened

<sup>1</sup> Notably the Rowlatt Act.

by grave communal disturbances between Hindus and Moslems.

It was a scene of confusion, strife and suppression which presented itself to the new Viceroy, Lord Irwin, when he assumed his responsibilities in 1926. He realized that a supreme effort was needed if a peaceful solution of the Indian question were to be reached. But we must reserve further consideration of Indian developments to Volume II of this study, and pass on to the third problem mentioned in the introductory note to this chapter.

#### 4. *Imperial Constitutional Developments*

It was in June 1921 that there assembled in London a "Conference of Prime Ministers and Representatives of the United Kingdom, the Dominions and India." The new phase of evolution into which the Empire had passed, through the furnace of war, was illustrated by the extent to which matters of foreign policy exercised the Conference. The delegates sat in council to discuss their attitude towards the Upper Silesian dispute<sup>1</sup> and the allocation of reparations as between members of the Empire was settled.

The Conference gave its unqualified support to the proposal of President Harding that a naval disarmament conference should be held in the U.S.A. The position of the Empire *vis-à-vis* the League of Nations was considered. Mr. A. J. Balfour said that should the calamity of a collapse or abandonment of the League occur, "it is not in the lifetime of this generation that a serious effort will again be made to substitute the rule of justice in International Affairs for that of force; and the horror of five years of war will have been endured in vain."

At an Imperial War Conference held in 1917 it had been agreed that as soon as possible after the War an Imperial Constitutional Conference should be held. The prospect of a discussion on such a delicate subject seemed less attractive in 1921 than it had done in 1917 and the project was abandoned.<sup>2</sup>

<sup>1</sup> See p. 203.

<sup>2</sup> Command 1474 of 1921.

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In 1922 there occurred the notorious "Chanak incident," which raised in an acute form the whole question of the right of one or more members of the Commonwealth to remain neutral when and if one or more of the other members was involved in war.

As mentioned in Chapter VIII, the Allies were so pre-occupied with the business of dealing with Germany, Austria and Hungary after the War that the case of Turkey was left over for further consideration, partly because the Allies were by no means in agreement as to how to divide up the Turkish delight, and partly because the Turks had been so utterly defeated that it seemed safe to put the victim on one side for future dissection. This proved to be an error. The Turks took advantage of their respite, and by the autumn of 1922 the Greeks, who had been encouraged by the British to invade Anatolia and bring them to order, were in full retreat whilst the position of British (United Kingdom) troops on the Asiatic shores of the Dardanelles seemed likely to become critical. The French, in order to advance their own policies in the Far East, had been intriguing with the Turks behind the scenes. France was not prepared to do anything to arrest the confident advance of the Turks, and the latter having routed the Greeks, were showing a disposition to try conclusions with the British.

On September 15th, 1922, the Dominion Governments, who had long since believed that the prolonged dispute between the Turks and the Allies was a European affair in which they had no concern, were astonished to receive a telegram from Downing Street informing them that a critical situation had arisen and that His Majesty's Government (in London) would be glad to know whether in the event of hostilities breaking out the Dominions would be ready to be represented by contingents. New Zealand and Australia replied in the affirmative, though the Australian answer contained reservations; but Canada and South Africa made it clear that they resented this bolt from the blue and had no intention of being drawn into another war. In fact, war did not break out, since the Turkish Government

agreed to enter into negotiations which led to the final Peace Treaty of Lausanne,<sup>1</sup> but the episode of Chanak caused much feeling in the Dominions, especially in Canada, where it was interpreted as a revival of the pre-War practice of ruling the Empire from Downing Street.

In 1923 an Imperial Conference was held in London which was notable for the fact that it was attended by Mr. Cosgrave, the President of the Executive Council of the Irish Free State. The most important matter dealt with at the 1923 Conference was that of the negotiation, signature and ratification of Treaties by members of the Commonwealth. Resolutions were passed amongst which was one which declared that it was "desirable that no treaty should be negotiated by any governments of the Empire without due consideration of its possible effect on other parts of the Empire. . . ."

It cannot be said that these resolutions amounted to much although they were concerned with a strictly practical problem, since the treaty-making powers of the Dominions had developed considerably, and it was significant that shortly before the 1923 Conference a Fishery treaty between Canada and the U.S.A. was signed by the Canadian delegate alone, the Canadian Government making it clear that they did not propose to allow the British Ambassador in Washington to put his name to the document on behalf of the Government in London.

It was at the Imperial Conference of 1926 that the issue was faced as to what the constitution of the Empire (1926 style) really was. The Conference adopted a report from its Sub-Committee on inter-Imperial relations, which stated that the Empire, "considered as a whole, defies classification and bears no real resemblance to any other political organization which now exists or has yet been tried." In the words of Arnold Toynbee: <sup>2</sup> "The fundamental paradox of this mysterious 'political organization' was its simultaneous unity and multiplicity. On the one hand, the British Empire

<sup>1</sup> See p. 181.

<sup>2</sup> *The Conduct of British Empire Foreign Relations since the Peace Treaty*, Oxford Press, p. 1. (This work should be studied for a detailed analysis of the subject-matter of this section.)

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was undoubtedly a single state in both municipal and international law. In municipal law . . . a common British citizenship . . . made it impossible . . . for any one community of 'British subjects' to go to war with any other, however fully such communities might be . . . sovereign independent states. Conversely, it was impossible for any community of British subjects to be at peace with a foreign country with which the British Empire was at war."<sup>1</sup> So much for theory. In practice, events since 1919 had proved that the unity and equalities of rights of British citizenship could be disregarded by Dominions in framing their immigration laws. Indian subjects of the King-Emperor harboured a long-standing grievance against South Africa in this respect.

The Canadians had made it clear that their ratification of the Lausanne Treaty with Turkey had bound them only "legally and technically" and that it lay with the Canadian Parliament to decide "of its own volition" what "active obligation" Canada should incur. The Locarno Treaties<sup>2</sup> specifically excluded the self-governing Dominions and India from the obligations undertaken therein by Great Britain on behalf of the Empire until the Dominions voluntarily adhered to the treaties—an act of international co-operation which, up to 1934, none of the Dominions had seen fit to undertake. It is also worth noting that at the time of the 1926 Imperial Conference the constitution of the Irish Free State was in force, Article 49 of which provides that "save in the case of actual invasion the Irish Free State shall not be committed to actual participation in any war without the consent of its parliament."

Faced with these and many similar paradoxes, the 1926 Conference in a series of bold obscurities had the hardihood to declare that the association of self-governing communities had, "as regards all vital matters, reached its full development" and that the relations between Great Britain and the Dominions might be "readily defined."

<sup>1</sup> General Hertzog denied this proposition when he presented the Report of the 1926 Conference to the South African House of Assembly.

<sup>2</sup> See p. 277.

Then followed the famous definition :

“ They (Great Britain and the Dominions) are autonomous communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations.”

To the inquiry “ What does it mean ? ” the present writer confesses that he is obliged to fall back on the reply which one will receive if one asks an artist the “ meaning ” of a sur-realist picture. “ Mean ? It does not mean anything ; it is simply what it is.”

The 1926 Conference also declared that “ nothing would be gained by attempting to lay down a constitution for the British Empire.”

As Mr. Bruce (for Australia) observed : “ It is quite impossible for an Empire progressing continually, as we are, to have such a document. If we had had it in the past, either it would have had to be torn up or it would have destroyed the Empire.”<sup>1</sup>

To sum up. In 1926 the Irish question seemed to be settled. The great constitutional experiment in India was moving forward along the lines appointed by the Government of India Act of 1919, although it was already clear that the world of India was moving faster than had been foreseen would be the case when a transitional period of ten years dyarchy was established. The self-governing Dominions had jealously asserted their post-War independence and a sudden leap forward in real status, which by its rapidity might have been expected to cause disruption in most political organizations, had been smoothed over and rationalized by the British genius for compromise, and a formula had been found by the Imperial Conference of 1926 which satisfied all and harmed none except the more logically minded lawyers. Rashly, and—one might add—with a certainty of definition thoroughly un-British, the

<sup>1</sup> Command 2769 of 1927.

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statesmen of the Empire in 1926 actually committed themselves to the statement that in its great growths the story of the relations between Great Britain and the Dominions had reached its predestined end. Our Own Times—as we shall see in Volume II of this study—were to prove them wrong, but the underlying feeling which prompted that rash diagnosis was but one aspect of a general feeling which ran round the world at this time (1925-26). A sensation; a hope; a belief that the troubled times were over and that the War and its consequences—good, bad and indifferent—were at last under control.

## CHAPTER XIII

### THE ORGANIZATION OF PEACE

"Political science does not make men ; but takes them from nature and uses them."—ARISTOTLE *Politics*.

"Covenants without the sword are but words, and of no strength to secure a man at all."

"If a covenant be made . . . in the condition of mere nature, which is a condition of war of every man against every man upon any reasonable suspicion, it is void : *but if there be a common power set over them both with right and force sufficient to compel performance, it is not void.*"

HOBBS, *Leviathan*, XVII.

THE outstanding problem of political reconstruction which confronted the statesmen after the immediate legacies of the War seemed in 1925-26 to be in process of liquidation was that of the organization of peace. It was no new problem, for it was one which had always confronted men at the conclusion of great wars. In the past there had been some notable attempts to organize peace, efforts which, for a variety of reasons which must not detain us now, had invariably failed, and it says something for the strength of the human desire for peace that after the Great War still another attempt was made to solve this baffling problem. In some respects the outlook was favourable, since the forces of peace had at their disposal conditions and tools which they had never previously enjoyed. The War had been a world war ; the so-called neutrals had suffered grievously, and there was universal recognition of the fact that if peace could not be organized and firmly enforced it would be extremely difficult for any Power to be even nominally a neutral in the "next war." The problem was therefore one of universal concern.

Secondly, and this new condition was really the corollary of that just mentioned, the universal spread of western civilization with its marvellous communication system had made it technically possible to organize universal peace

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If it was possible to have a world war it was equally possible to have a world peace.

Thirdly, the League of Nations existed. This was a new thing and a very valuable piece of international machinery for the organization of world affairs. Moreover—to quote the opening sentence in The Preamble to its covenant—it had been specifically set up “in order to promote international co-operation and to achieve international peace and security.”

It was also argued by some that the experiences of 1914-18 had shown that war was becoming ever more frightful, and that since the next conflict would in all probability be waged to a considerable extent in the air and would certainly include attacks upon civil populations with chemical and incendiary bombs, these facts tended to strengthen the chances of a successful attempt to organize peace. But experience shows that men can endure what they invent, and that to every offensive there is a defensive. For this reason, the three new conditions first mentioned seem to be the most important. So much for the credit side in an appreciation of the prospects for the organization of peace after the Great War.

On the debit side stood a formidable array of difficulties. Chief of these was that the great Leviathan, The Sovereign State, was still roaming the world in its sixty-six national shapes and disguises, and although most of the states had registered as visitors in the International Hotel at Geneva, they reserved the right to withdraw should the rules of the house not agree with their habits. The organization of peace necessarily involved the abandonment of the sovereign right of waging war, and, in the view of many people, it also involved some arrangements for enforcing penalties<sup>1</sup> upon the state which broke the peace. These two conclusions struck at the very roots of sovereignty and were comparable in the field of politics to a proposal in that of economics that “Free Trade” and a “Universal Money System” should be made compulsory.

Both in Part I of the Treaty of Versailles (The Covenant

<sup>1</sup> Commonly known as “Sanctions.”

of the League <sup>1</sup>) and in Part V there was mention of Disarmament. In Part V, which is concerned with the arrangements of the disarmament of Germany, it is expressly stated that the purpose of these arrangements is to make "possible the initiation of a general limitation of the armaments of all nations."

On March 8th, 1920, the Supreme Council of the Allied and Associated Powers requested the Council of the League of Nations, which had been established a few weeks earlier, to "examine proposals without delay" for the reduction of armies everywhere to a peace footing "in order to diminish the economic difficulties of Europe."

Later in the same year the Brussels Financial Conference <sup>2</sup> stated that reduction of armaments was a necessary prelude to financial recovery. In the meantime, the League of Nations had set up a Permanent Advisory Commission <sup>3</sup> for Naval, Military and Air questions to advise the Council as to its duties under Articles I and VIII of the Covenant. At its First Assembly on December 14th, 1920, the League states-members recognized that something more than a technical problem was involved in the single word "disarmament," and a hint of recognition of the wider issues of "the organization of Peace" is to be found in the decision that any scheme for disarmament must be "based on a thorough feeling of trust and security as between nation and nation." A committee, called the Temporary Mixed Commission, was set up in February 1921—it remained in being until the Assembly of 1924—with instructions to examine and report on the whole problem.

The winter of 1921-22 was remarkable for a regional

<sup>1</sup> See Appendix I. In Article 8, "Members of the League recognize that the maintenance of peace requires national armaments of the lowest point consistent with national safety and the enforcement by common action of international obligations," and directs the Council to "formulate plans for such reduction" . . . and to "advise how the evil effects attendant upon" "the manufacture by private enterprise of munitions" can be prevented. Also "Members of the League undertake to interchange full and frank information as to the scale of their armaments."

<sup>2</sup> See p. 325.

<sup>3</sup> This Commission is an imposing but useless body consisting of an army, naval and air force officer from each country represented on the Council. Technically speaking, it would have the duty of organizing a League war. Its connection with disarmament questions has been slight.

attempt to deal with one aspect of the armaments questions, and that was the danger of a naval race between Great Britain and the U.S.A. and rivalry between the U.S.A. and Japan in the Pacific area. The result was the Washington Naval Treaty,<sup>1</sup> in which Great Britain recognized the right of the U.S.A. to parity of naval strength. On the British side the extreme need for economy was the principal motive which led to the signing of the Treaty. In the case of the U.S.A. it obviated the necessity of completing ships she would have had difficulty in manning, and it detached Japan from alliance with Great Britain. It was at this conference that Great Britain first pressed for the abolition of submarines—a proposal which was indignantly rejected by France for reasons whose hypocrisy was only equalled by those advanced by the British in support of their plan.

To return to Geneva. The Temporary Mixed Commission<sup>2</sup> reported to the second Assembly of the League that a feeling of insecurity was the chief obstacle in the path of disarmament. The Assembly asked the statesmembers to report what sized armaments they required for "their national security," and the T.M.C. was invited to draw up a plan for armaments reduction. The first question was obviously absurd, since each state based its "requirements" on the size of other armed forces, though strict historical accuracy obliges us to record—at the risk of being accused of loving every country better than our own—that the British Admiralty has on occasion put forward the view that there is an irreducible "minimum" of British naval strength, irrespective of the size of other forces. When this argument is advanced the foreign delegate begins to understand what Mr. Ramsay MacDonald meant when he said in the U.S.A.: "Our Navy is us." Clearly "us" cannot be allowed to become too small. Unfortunately the French "Nous" is an army, whilst at the close of *Our Own Times* the British

<sup>1</sup> See p. 226.

<sup>2</sup> The Committee was mixed because it consisted of experts on political, social and economic subjects; technical experts and members of the League's Financial and Economic Committees and representatives of the I.L.O.

Air Force was also putting forward strong claims to be "us."

By the time the Third Assembly of the League met in 1922 the T.M.C. had considered a number of plans and had discovered that the root of the difficulty was political and that progress was impossible until something had been done to cope with the problem of security. In its fourteenth resolution the Third Assembly declared that disarmament depended upon a sense of security, and it directed its organs, the T.M.C. and the P.A.C. (Permanent Advisory Committee) to produce a draft of a treaty giving security to states willing to reduce their armaments. An important controversy at once arose as to how security was to be assured. One school of thought (it spoke French) maintained that there should be a general treaty guaranteeing to a state that was attacked the support of all the states-members of the League: their rivals maintained that this would be altogether too vague and give no one any feeling of security. What was required, declared the second school, was a prearranged plan of defence, and this could best be obtained by groups of states contracting defensive alliances. The "Universalists," of whom Lord Robert Cecil was the principal spokesman,<sup>1</sup> declared that these regional tactics would start afresh the bad old system of groups and alliances which was clearly out of keeping with the universal spirit which the League existed to foster.

After much discussion the T.M.C. managed to effect a compromise between "Universalists" and "Regionalists," and the result was the Treaty of Mutual Assistance. This draft treaty opened with a statement that "aggressive war is an international crime," and it proceeded to lay down a series of guarantees together with provisions for their application. It maintained the principle of "general assistance" and thus met the point of view of the "Universalists" whilst, by providing for the conclusion of supplementary defensive agreements whose compatibility with the provisions of

<sup>1</sup> As an individual. The British Government's representative at the Second Assembly had spoken in favour of regional agreements since, in the opinion of H.B.M.G., the absence of the U.S.A. and the U.S.S.R from the Council Table of the League made universal schemes impracticable.

the Covenant were to be examined by the Council, the Treaty met the wishes of the "Regionalists." The Council was to be given special powers in times of emergency. The proposed Treaty of Mutual Assistance was submitted to the Fourth Assembly of the League, which circulated it to governments for their comments. Twenty-nine replies were received, of which eighteen were favourable in principle, but the unfavourable replies, which included messages from the U.S.A., the Soviet Union and Great Britain, killed the project. The British Government's criticism, which was signed by the Prime Minister (Mr. Ramsay MacDonald), pointed out that the proposed treaty would enormously complicate international relations; that "a general guarantee" was "precarious"; that the treaty did not contain any proposals for substantial disarmament; that the part of the treaty which contemplated the "superimposing on a general treaty of a system of partial treaties" was a retrograde step towards the pre-War system of alliances. A widespread criticism of the treaty was that it contained no provision for the definition of the aggressor.

The Fifth Assembly of the League met in 1924 and was forced to recognize that the failure of the Treaty of Mutual Assistance marked the end of the first large-scale post-War attempt to reduce armaments. It so happened that this public and well-advertised failure to make even a start with the organization of peace coincided with the beginnings of a marked improvement in the general political and economic situation of Europe.<sup>1</sup>

Governments of a Liberal character were in power in Great Britain and France, and their respective chiefs (Mr. MacDonald and M. Herriot) attended the Assembly and participated in the debate on disarmament and security. The British Prime Minister said: "Our interests for peace are far greater than our interests in creating a machinery of defence. A machinery of defence is easy to create, but beware lest in creating it you destroy the chance of peace."

<sup>1</sup> See p. 134. The Ruhr had been evacuated and the Dawes Scheme for reparations was in being.

M. Herriot in his reply observed: "Arbitration is essential but it is not sufficient. It is a means but not an end. It does not entirely fulfil the intentions of Article VIII of the Covenant which, if I may again remind you, are security and disarmament. We in France regard these three terms—arbitration, security and disarmament—as inseparable, and these three words would be but empty abstractions did they not stand for living realities created by our common will. Arbitration is justice without passion, but although justice is passionless it must not be powerless; force must not be the monopoly of the unjust."

As a result of the discussions which took place, the Fifth Assembly officially recognized the inter-connection between *disarmament, security and arbitration*. The connection between the first two had previously been established, and the third, arbitration, was now added. According to Mr. MacDonald and M. Herriot, the aggressor would be the one who refused arbitration. It was recognized that states will not disarm until they feel "secure," and that security depends upon superior armaments or acceptance of some alternative to war as a method of settling disputes. It was further considered by many Powers that the alternative to war must be backed by "sanctions."

The consequence of this new formula was the preparation by the Assembly of a draft treaty in which the factors of arbitration, security and disarmament were interlocked. This was the famous "Protocol for the Pacific Settlement of International Disputes."

The most important features in the Protocol were :

- (a) The outlawry of war.
- (b) Compulsory arbitration supported by sanctions. All disputes were to be judged either by the Permanent Court of International Justice,<sup>1</sup> or by an arbitral tribunal or by the Council. If the parties to the dispute refused to accept the arbitral or judicial decision they were to be judged to have broken the

<sup>1</sup> See Vol. II.

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terms of the Protocol, "a breach" which, in the words of M. Politis, who "reported" the first part of the Protocol to the Assembly, "involves consequences and sanctions according to the degree of the gravity of the case."

- (c) An attempt was made to lay down a procedure for determining the aggressor<sup>1</sup> which, broadly stated, amounted to the fact that the Power which refused arbitration was to be considered the aggressor.
- (d) The provision of economic, financial, naval, military or air sanctions against the aggressor.<sup>2</sup>

The Protocol was intended to make possible a general reduction of armaments, and the signatories of the Protocol were to undertake to participate in an international disarmament conference which was to open on June 15th, 1925. Moreover, the arbitration and security arrangements of the Protocol were not to come into force until a plan for the reduction of armaments had been agreed upon, and only states accepting this plan were to enjoy the privileges of the Protocol. The Assembly, after some debate in which the Japanese raised objections to certain features of the Protocol, adopted the Treaty and it was submitted for the consideration of the various governments who were members of the League. The time for its examination was extended at the request of the British Government (a Conservative government was now in power) in order that consultation should take place with the Dominions. The London government suggested to the Dominions that an Imperial Conference be held to discuss the Protocol, but this idea was not acceptable to the Dominions and the question was referred to the Committee of Imperial Defence.

At a meeting of the Council held in March 1925, the British Government explained why it could not accept the Protocol, and since the divergence of views between France

<sup>1</sup> See Article X of the Protocol.

<sup>2</sup> It was hoped in this part of the Protocol to fortify the vagueness of Article XVI of the Covenant of the League.

(which immediately accepted it) and Great Britain in this matter were fundamental and have remained in being throughout the post-war years of Our Own Times it is important to set forth their particulars. The basic difference between the British and French standpoints is that the former have a constitutional dislike for complete and logical schemes in the conduct of affairs. They are empiricists and prefer to deal with problems as they arise on what they call "commonsense lines." To the Anglo-Saxon mind, theories can always be adjusted to the facts, and to the Latin accusation that the Englishman is so intellectually lazy that he cannot be bothered to think out the elements of a problem, the accused retorts that experience has shown him that in real life there are in any given problem so many imponderables and unknown factors that too much preliminary thought usually results in waste of time and mental energy. The British have no liking for a written rigid constitution; they alter it day by day in accordance with their practical needs. The continental mind views with contempt this hit-and-miss method, this worship of trial and error, but the intellectual scorn is tempered with astonishment and perhaps envy at the number of hits which are scored and by speculation as to whether the whole business is merely a smoke-screen of amateurishness which the Englishman, with diabolical cunning, sets up to conceal the workings of a far-seeing and calculating mind!

The deeper causes of the different mental processes just mentioned are in part mysteries which will not be fully revealed either to Englishmen or Continentals until they stand side by side before the Judgment Seat, but the practical consequences of these differences can be well illustrated by some quotations from the speeches made by Mr. Austen Chamberlain (British Foreign Secretary) and M. Briand (Foreign Minister of France) at the thirty-third meeting of the Council in March 1925.<sup>1</sup> Mr. Chamberlain expressed "the sympathy felt throughout the British Empire with any effort to improve the international machinery for maintaining the peace of the world," but added that his

<sup>1</sup> See League of Nations official Journal, April 1925, p. 444 *et seq.*

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Government saw "insuperable objections to signing and ratifying the Protocol in its present shape."<sup>1</sup> He explained that the British Government objected to compulsory arbitration. The clauses of the Protocol relating to sanctions were "obscure" and "destroyed the balance and altered the spirit of the Covenant." Mr. Chamberlain added "Since the general provisions of the Covenant cannot be stiffened with advantage . . . His Majesty's Government conclude that the best way of dealing with the situation is, with the co-operation of the League, to supplement the Covenant by making special arrangements in order to meet special needs. . . . Within its limits, no quicker remedy for our present ills can easily be found or any surer safeguard against future calamities." When M. Briand rose to reply he observed that the British Foreign Secretary's statement was "instinct with serene aloofness and gentle philosophy." "France," he explained, "remains definitely attached to the Protocol." Concerning regional agreements he ended his speech by saying—on the subject of the "special arrangements" advocated by Mr. Chamberlain—that "she (France) does not scout the idea of regional agreements provided for by the Covenant and the Protocol. Nevertheless, France, convinced that only the adherence of the nations to a common protocol can induce them to renounce the competition in armaments and convinced that if the principles on which the Protocol rests are abandoned the nations will gradually revert to their old habits and to a

<sup>1</sup> Some of these objections came from that British Empire to which Mr. Chamberlain had just referred. To the requests which the British Government (London) had addressed to the Dominions in December 1924 asking them for their opinions on the Protocol, the Dominions returned answers which showed that the document was disliked in all parts of the Empire. The Dominions—especially Canada and South Africa—sheered off violently from the possible limitations of their sovereignties and increases in their international obligations involved in the Protocol. New Zealand was shocked at the possibility of the Permanent International Court of Justice having jurisdiction over matters relating to the immigration of coloured races into New Zealand or British belligerent "rights" at sea. The Canadians were alarmed at the prospect of having to be participators in the application of sanctions on behalf of a League of Nations of which their American neighbours were not members. These objections on the part of the Dominions carried great weight in London, where, as we have seen in Chapter XII, the Home Government was at this time endeavouring to work out the new post-War relationship between the self-governing members of the Commonwealth.

solution of their disputes by force, remains faithful to the signature she was the first to give, with the object of henceforth sparing herself and other nations the horrors of war from which she suffered so terribly."

Italy and Belgium supported the British point of view of hastening slowly, and notwithstanding an extraordinarily able and eloquent speech for the defence by one of its authors, Dr. Benes of Czechoslovakia, it was clear that the Protocol, and with it the plan for an international disarmament conference in 1925, was henceforth to be numbered amongst the lost causes.

Nevertheless, the problem of the organization of peace remained, inexorable and pressing, for as the years passed by, and with their passing took with them the first passionate reaction against the horrors of war, a new generation was coming into its own, a generation which would perhaps take peace for granted until in due course it woke up to find itself at war.

The failure of the Protocol, which was the second general attempt to organize peace since 1919—the Treaty of Mutual Assistance having been the first still-born child in this family—was due to a great extent to the opposition the scheme encountered throughout the Empire, and since it had destroyed the French plan the British Government was morally obliged to put forward its own scheme. It accepted the implied challenge and turned its energies to applying its theory of regional agreements to the centre of the European problem of insecurity, which was clearly the matter of Franco-German relations, and especially the fear in France of a revived Germany. The French were afraid of Germany because they had beaten her down to the ground, and their fear was analogous to that which would be experienced by the average man had he (with the assistance of some friendly spectators) unexpectedly knocked out the heavy-weight champion of the world. It was all very well, argued the average Frenchman, to be sitting on the prostrate body of the colossus, but the giant was already coming to, he was stretching his limbs, and where were the spectators? What would they do if in due course the

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German heavy-weight rose to his feet and assumed a fighting attitude:

The British Government determined to make an attempt to give France security on the principle that if this could be done the chief obstacle to disarmament would be removed. It so happened that in the spring of 1925 the German Government had let it be known that in certain circumstances they would be prepared to give a voluntary guarantee that they would not attempt to change the western frontiers of Germany nor resort to war to alter her eastern boundaries. The British Government used this German proposal as a starting-point and began the negotiations which culminated in the Locarno Conference in October 1925 and the Locarno Treaties (December 1st, 1925). The preliminary discussions were complicated and more than once threatened to be fruitless. So far as the British Empire was concerned, the Home Government had freedom of action subject to the reservation by the Dominions of their right to accept or reject any agreement which might be reached.<sup>1</sup> The United Kingdom Government was also careful to explain to France and Germany that the maximum undertaking to which the people of Great Britain would subscribe was some sort of guarantee of the frontiers between Germany, France and Belgium. As Mr. Chamberlain said in the House of Commons in explaining the Government's foreign policy: <sup>2</sup>

“ Our obligations could not be extended in respect of every frontier. That is . . . the main reason why we rejected the Protocol. But we thought that what we could not do in every sphere we might properly . . . advise our people to undertake in that sphere with which we were most closely connected.”

Earlier in his speech, the Foreign Secretary, in support of his claim that the “ stabilization of peace in the West ” was a special concern of the British people, observed:

<sup>1</sup> In fact, the Dominions have never ratified the Locarno Treaties. This raises an interesting point as to their position in the case of a war in which Great Britain may be involved by her Locarno obligations.

<sup>2</sup> *Hansard*, Vol. 182, pp. 136 *et seq.*

“ All our greatest wars have been fought to prevent one great military Power dominating Europe and, at the same time, dominating the coasts of the Channel and the ports of the Low Countries. . . . The issue is one which affects our security.”

The French, profoundly suspicious of the German proposals, directed their gaze to Germany's eastern and southern frontiers and noted that the German guarantee of the frontiers of Poland and Czechoslovakia, allies of France and creations of the sacred peace treaties, was significantly limited. France made tremendous efforts to induce the British Government to accept some extension of her proposed guarantee which should include the eastern and southern frontiers, but the Cabinet held firm. Indeed, had they not done so, their promises would have been valueless, since in promising to guarantee France's security against German attack they were already drawing liberally on the willingness of public opinion in Great Britain to undertake continental commitments. A proposal to put British force behind the perpetuation of the Polish Corridor would have aroused a storm of protest in Great Britain.<sup>1</sup>

The German Government also had its difficulties. The nationalist elements objected to the perpetuation of the *status quo* in the West and insisted that, at the very least, such a concession should be used to force the Allies immediately to evacuate the Rhineland.<sup>2</sup> As regards the eastern frontiers, the furthest Herr Stresemann and Dr. Luther (Foreign Secretary and Chancellor) dared to go in the face of a public opinion which regarded these frontiers as the crowning injustice of the Peace Treaty, was to propose that Germany should promise not to resort to force to obtain treaty revision in this respect.

From these varying points of view of statesmen moving as far ahead in the unexplored field of international peace as they dared under the watchful eyes of suspicious and nationalistic electorates, there emerged the compromise of

<sup>1</sup> As we shall see in Vol. II, the British Government's attitude in this matter had not changed by 1934.

<sup>2</sup> By the Treaty of Versailles the Rhineland occupation was to end in 1934.

the Locarno Treaties.<sup>1</sup> They fell into two groups: First, the Rhineland Pact—a treaty of Mutual Guarantee between Germany, Belgium, France, Great Britain and Italy, in which the frontiers of France, Germany and Belgium, and the demilitarization of the Rhineland<sup>2</sup> are guaranteed. Also, provision for the pacific settlements of all disputes between France, Germany and Belgium, and the highly important undertaking of Great Britain and Italy to proceed to the assistance of France and Belgium or of Germany if one side be subjected to unprovoked aggression by the other. The Rhineland Pact is supplemented by Treaties of Arbitration between Germany and France and Germany and Belgium. The second group of Locarno Treaties (the Eastern Pact) consists of Treaties of Guarantee between France and Poland and France and Czechoslovakia providing for military assistance in the event of either being threatened or attacked, and Arbitration Treaties between Germany and Poland, and Germany and Czechoslovakia.

At the conclusion of the Locarno Conference the states concerned expressed the view that the Locarno Pact by “bringing about a moral relaxation of the tension between nations” . . . would by “strengthening peace and security in Europe . . . hasten on effectively the disarmament provided for in Article VIII of the Covenant of the League of Nations.” They undertook “to give their sincere co-operation to the work relating to disarmament already undertaken by the League of Nations and to seek the realization thereof in a general agreement.”

As the full significance of what *seemed* to have occurred at Locarno became widely realized the notes of optimism rose even higher in the scale, and “The Locarno Spirit” was expressed in the following typical utterances:

“It (the Pact) was the real dividing line between the years of war and the years of peace,” said Sir Austen Chamberlain, who was made a Knight of the Garter in recognition of his services as chief accoucheur. “In the light of these treaties we are Europeans only,” declared M. Briand at the ceremony of signing the documents in London.

<sup>1</sup> Cmd. 2525.

<sup>2</sup> As prescribed in the Treaty of Versailles.

Herr Stresemann, not to be outdone, said: "Let each one of us first be a citizen of Europe linked together by the great conception of civilization which imbues our Continent . . . we have the right to speak of a European idea." Whilst from far-off Washington came the news that Mr. Coolidge accepted the results of Locarno "as the indication of a disposition on the part of Europe to help itself, which should be deeply encouraging to all Americans who desire to help Europe."<sup>1</sup>

The conclusion of the Locarno groups of Treaties marks the end of the first phase of the post-War attempt to organize peace. It was a period during which the results were negative, but none the less instructive. The lessons learnt were three in number. First, that armaments were the effects of fear and could not be abolished until states felt secure. Secondly, that security could only be given to states if steps were taken to organize internationally and universally some system by which it should be a punishable crime to resort to force to settle private disputes between states. Thirdly, that any such organization (of which the Treaty of Mutual Assistance and the Geneva Protocol were tentative examples) involved an interference with the sovereign rights of states which some of the most important countries were not prepared to accept. In short, that the efficiency and value of any organization for the preservation of peace depended upon the extent to which the states were prepared to recognize that the anarchy of sovereignty and the harmony of security could not exist side by side in international relations.

From all these years of discussion emerged the compromise of the Locarno Treaties sponsored by the British, in which an attempt was made to insulate Western Europe and create a nucleus of security in this "soft spot" of international politics.

Although the conclusion of the Locarno Treaties had seemingly laid the foundations for Franco-German co-operation, they were only foundations. The problem of constructing a world-wide system of collective security,

<sup>1</sup> See *The Times*, October 21st, 1925.

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a system in which armaments should be limited, still confronted the national states. The disarmament question in particular was still lying on the Council table of the League.

The sixth session of the Assembly met at Geneva in September 1925 and found itself in a difficult position regarding Disarmament, for since the Protocol was lost so also was the proposed International Disarmament Conference which had been dependent upon the Protocol. Nevertheless the Disarmament articles of the Covenant remained and could not be disowned; so did the armaments; and so did the certainty that Germany, who it was expected would shortly enter the League with a seat on the Council, would press her fellow-Leaguers to explain how it was that Germany, disarmed in the midst of an armed camp, was expected to feel secure.

Some of the smaller states tried hard to bring about an early conference for the consideration of a reduction of armaments, but this proposal was defeated, chiefly by Great Britain and Italy. The British Government, with their gaze fixed on the less ambitious but more practical goal of the Locarno Treaties, were in agreement with the Italian proverb that "*Che va piano, va sano, che va sano va lontano.*" Nevertheless, the importunities of the smaller Powers had the effect of forcing the Council of the League to take some action in connection with disarmament. In fact, the Sixth Assembly went so far as to pass a resolution in which was included the statement that "any inactivity of the Council in this respect would fail to meet the ideas of the sixth Assembly."

Moved by this kick from the back-bench members of the League, the Council decided to appoint a "Preparatory Commission for the Disarmament Conference,"<sup>1</sup> which was to hold its first meeting in February 1926 and to study a

<sup>1</sup> The membership of this commission consisted of the ten states on the Council, plus three non-League members (Germany, the U.S.A. and Russia) and six other Powers especially concerned in disarmament.

The terms of reference of the Committee were as follows: "For determining the questions which should be submitted to a *preparatory examination* with a view to a *possible conference* for the reduction and limitation of armaments." (Italics mine.—S. K.-H.)

list of questions which a committee of the Council had been appointed to draw up. These questions are worth quoting, for, though drawn up as long ago as 1925, they indicate very clearly the complexities of this problem which still (1934) confront civilization :

- I. What is to be understood by the expression "armaments?" (a) Definition of the various factors—military, economic, geographical, etc.—upon which the power of a country in time of war depends. (b) Definition and special characteristics of the various factors which constitute the armaments of a country in time of peace; the different categories of armaments—military, naval and air—the methods of recruiting, training, organizations capable of immediate military employment, etc.
- II. (a) Is it practicable to limit the ultimate war strength of a country, or must any measures of disarmament be confined to the peace strength? (b) What is to be understood by the expression "reduction and limitation of armaments." The various forms which reduction or limitation may take in the case of land, sea and air forces; the relative advantages or disadvantages of each of the different forms or methods; for example, the reduction of the larger peace-time units or of their establishment and their equipment, or of any immediately mobilizable forces; the reduction of the length of active service, the reduction of the quantity of military equipment, the reduction of expenditure on national defence, etc.?
- III. By what standards is it possible to measure the armaments of one country against the armaments of another, *e.g.* numbers, period of service, equipment, expenditure, etc.?
- IV. Can there be said to be "offensive" and "defensive" armaments? Is there any method of ascertaining whether a certain force is organized for purely defensive purposes (no matter what use may be made of it in time of war), or whether, on the

contrary, it is established for the purpose in a spirit of aggression?

- V. (a) On what principle will it be possible to draw up a scale of armaments permissible to the various countries, taking into account particularly: population; resources; geographical situation; length and nature of maritime communications; density and character of the railways; vulnerability of the frontiers and of the important vital centres near the frontiers; the time required, varying with different states, to transform peace armaments into war armaments; the degree of security which, in the event of aggression, a state could receive under the provisions of the Covenant or of separate engagements contracted towards that state? (b) Can the reduction of armaments be promoted by examining possible means for ensuring that the mutual assistance, economic and military, contemplated in Article XVI of the Covenant shall be brought quickly into operation as soon as an act of aggression has been committed?
- VI. (a) Is there any device by which civil and military aircraft can be distinguished for purposes of disarmament? If this is not practicable, how can the value of civil aircraft be computed in estimating the air strength of any country? (b) Is it possible or desirable to apply the conclusions arrived at in (a) above to parts of aircraft and aircraft engines? (c) Is it possible to attach military value to commercial fleets in estimating the naval armaments of a country?
- VII. Admitting that disarmament depends on security, to what extent is regional disarmament possible in return for regional security? Or is any scheme of disarmament impracticable unless it is general? If regional disarmament is practicable, would it promote or lead up to general disarmament?
- . . . . .

The Preparatory Commission held two sessions<sup>1</sup> (May 1926, September 1926) at which it examined the above-mentioned questions, and at a third session (March-April 1927) it had before it two drafts, one sponsored by Lord Cecil, the other by M. Paul-Boncour (France).<sup>2</sup> The Commission struggled to amalgamate these into a single text and so produce a draft convention which could be considered by a disarmament conference, but the divergencies were irreconcilable and the best that could be achieved was a hybrid document in which many articles consisted of alternative texts. The main points of disagreement can best be seen from the following summarized analysis of the differences tabulated under subjects.

FRANCE	GREAT BRITAIN
(a) Trained Reserves not to count as effectives for a reduced army.	Reserves to be included in any agreed figure for armies.
(b) Air armaments to be restricted by engine power.	Air armaments to be restricted by numbers.
(c) Each country to be allowed a total naval tonnage and to use it for such classes of vessels, <i>e.g.</i> all in submarines—as it desired.	A limit of tonnage to be set for each <i>class</i> of vessel.
(d) International control of armaments to be exercised by a Permanent Commission.	Reliance must be placed on the good faith of the Powers.

The next event in the story of disarmament took place outside the orbit of the League of Nations, and consisted of an invitation by President Coolidge to Great Britain, Japan, France and Italy to meet in conference to discuss the question of a scheme for a limitation of the classes of vessels (cruisers, destroyers and submarines) upon which agreement had not been possible at the Washington Conference in 1922. In his message to Congress before he despatched his invitation

<sup>1</sup> Russia was not represented, as she refused to attend a conference unless it was "free from the Geneva atmosphere of tradition and intrigue." At this time the Russians were not collaborating with Geneva owing to the fact that their delegate, M. Vorovsky, had been murdered at Lausanne in 1923 and the Swiss Government had not given satisfaction for this crime. This episode was not officially closed till April 1927.

<sup>2</sup> For texts of these drafts, see Cmd. 2888 of 1927.

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to the Powers in February 1927, the President pointed out that the present moment seemed "opportune" for an attempt to clew up the Washington Conference, since the proceedings of the "Preparatory Commission for the Disarmament Conference" had shown the existence of the "earnest desire of the nations of the world to relieve themselves in as great a measure as possible of the burden of armaments and to avoid the dangers of competition."

The American idea was that the U.S.A., Great Britain and Japan should adopt the 5:5:3 ratio for the auxiliary vessels, and that suitable ratios should then be worked out for France and Italy.

France and Italy refused to attend the conference on the ground that it threatened the success of the general work towards disarmament, because all armaments were interdependent and that the naval aspect was part of a much larger problem. The conference, limited to Great Britain, Japan and U.S.A., opened at Geneva on June 20th and closed as a complete failure on August 4th. There was a violent difference of opinion between the U.S.A. and Great Britain, and a good deal of ill-feeling was caused. The technical difficulty which caused the breakdown of the conference was the view of the British that they had absolute minimum needs, especially in small cruisers. These absolute needs translated into figures meant seventy cruisers and a considerable expansion—instead of limitation—of existing naval forces. The Americans maintained that naval requirements must be relative, and the U.S.A. entertained "very serious misgivings in regard to the effort to prepare in time of peace for all possible contingencies . . . in time of war . . . it effectively closes the door to any real limitation of cruiser strength."<sup>1</sup> It subsequently became clear when Viscount Cecil (one of the principal British delegates) resigned from the Cabinet in consequence of the attitude which the British Government had taken up over this conference, that an important section of the

<sup>1</sup> Mr. Gibson's speech at the last session. In using the words quoted he was referring to a speech which had been made by Lord Jellicoe, one of the British delegates.

Cabinet, led by Mr. Winston Churchill (Chancellor of the Exchequer)—that “very forceful personality” as Lord Cecil called him—had not been prepared to concede mathematical parity in cruisers to the U.S.A. An incidental cause of the failure of the conference was a complete lack of diplomatic preparation. Had a preliminary exchange of views taken place, one of two events would have occurred: either a compromise would have been worked out or else the conference would never have been held and the world would have been spared the public scandal of the U.S.A. and Great Britain—with Japan attempting to mediate—publicly quarrelling as to their respective equipment for making war on each other. It was also in connection with this ill-fated conference that some shocking revelations were subsequently made as to the activities at Geneva of paid agents of American armament firms.

To return to Geneva. The Eighth Assembly of the League, which met in the autumn of 1927, was faced with the fact, already recorded in these pages, that its Preparatory Commission for the Disarmament Conference had been stumped by the questions before it and had failed at the end of its third session to do more than produce a draft convention which was a record of disagreements.

It was clear that concrete reduction of armaments must await further progress in the spheres of security and arbitration. The Germans, the completion of whose disarmament in accordance with the terms of the Treaty of Versailles had just been officially reported to the League Council by the Conference of Ambassadors (July 22nd, 1927), took the opportunity afforded to them at the Assembly to demand a Disarmament Conference within twelve months. They had also announced their adherence to the “Optional Clause”<sup>1</sup> as further evidence of their pacific intentions and

<sup>1</sup> The Optional Clause is attached to the Protocol of Signature of the Statute of the Permanent Court of International Justice (Article 36). States which sign this Optional Clause accept the compulsory jurisdiction of the Court in the sense that they undertake in advance to submit to the Court legal disputes concerning any of the following subjects:

- (i) The interpretation of a treaty.
- (ii) Any questions of international law.

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moral superiority over the "armed nations." The Assembly endeavoured to overcome the deadlock into which the organization of peace had drifted by instructing the Preparatory Committee to investigate "the measures capable of giving all states the guarantees of arbitration and security necessary to enable them to fix the level of their armaments at the lowest possible figures in an international disarmament agreement." The Preparatory Committee was also asked "to hasten the completion of its technical work and to convene the Conference on the Limitation and Reduction of Armaments immediately this work has been completed."

Armed with these instructions, the Preparatory Commission held its fourth session on November 30th, 1927. A new figure took his seat at the table in the person of the redoubtable M. Litvinoff from Soviet Russia. He immediately made his presence felt by making a long speech in which he invited the assembled delegates to give consideration to the immediate abolition of all armies, navies and air forces, the scrapping of all warships and the demolition of all munition factories, and the convening of a conference in March 1928 to settle the details of this startling but simple proposal. In a later speech, whilst his proposals were being debated, M. Litvinoff claimed that they would make the conduct of a war "if not an absolute impossibility, a matter of extreme difficulty in a year's time."

Nineteen delegates then rose in succession and condemned the Russian scheme. Nothing daunted, M. Litvinoff then withdrew his scheme and substituted for it an alternative proposal which aimed at the partial and gradual reduction of armaments. The states of the world were to be divided into four groups, according to the existing size of their armaments; the totally disarmed Powers to be in the fourth category. Powers in the first category were to reduce their armaments by 50 per cent., and the Powers

(iii) The existence of any fact which, if established, would constitute a breach of an international obligation.

(iv) The nature or extent of the reparation to be made for the breach of an international obligation.

in categories two and three by 33 per cent. and 25 per cent. respectively. Air warfare, poison gas, tanks and heavy artillery were to be abolished. A permanent international control commission was part of the scheme. This less ambitious but still very drastic proposal that the nations should really disarm met with little better fate than its predecessor; it was reserved for further discussion at the next meeting of the Commission. The question then arose—when should the next meeting take place?

The Dutch President of the Commission, Jonkheer Loudon, stated that no progress could be made until there had been "negotiations and exchange of views" between those governments whose opinions were most strongly opposed.

The fifth session of the Commission produced a crop of disagreements, and when the Ninth Assembly of the League opened on September 3rd, 1928, the two-headed draft convention had not yet received a second reading.

In the meanwhile an event of some note had taken place in the general problem of security. The "Kellogg Pact,"<sup>1</sup> which provided that its signatories<sup>2</sup> should renounce war as an instrument of policy, had been signed at Paris on August 27th.

During the negotiations between France and the U.S.A. for the conclusion of an arbitration treaty, M. Briand suggested a pact renouncing war between the two countries. Mr. Kellogg, the American Secretary of State, used this idea as the basis of a multi-lateral Treaty for the Renunciation of War open to the adherence of all states.

<sup>1</sup> The correct title is "The Pact of Paris."

<sup>2</sup> *Signatures and Ratifications.*

The fifteen original signatories were :

U.S.A., Australia, Belgium, Canada, Czechoslovakia, France, Germany, Great Britain, India, Irish Free State, Italy, Japan, New Zealand, Poland, South Africa.

By the end of 1931 forty-five other states had adhered :

Abyssinia, Afghanistan, Albania, Austria, Bulgaria, Chile, China, Colombia, Costa Rica, Cuba, Danzig, Denmark, Dominican Republic, Egypt, Esthonia, Finland, Greece, Guatemala, Haiti, Honduras, Hungary, Iceland, Iraq, Jugoslavia, Latvia, Liberia, Lithuania, Luxemburg, Mexico, Netherlands, Nicaragua, Norway, Panama,<sup>1</sup> Paraguay, Persia, Peru, Portugal, Rumania, Siam, Spain, Sweden, Switzerland, Turkey, U.S.S.R. and Venezuela.

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The Treaty consisted of two principal Articles :

- I. "The High Contracting Parties solemnly declare, in the names of their respective peoples, that they condemn recourse to war for the solution of international controversies, and renounce it as an instrument of national policy in their relations with one another."
- II. "The High Contracting Parties agree that the settlement or solution of all disputes or conflicts, of whatever nature or of whatever origin they may be, which may arise among them, shall never be sought except by pacific means."

The importance of this event was enhanced by the sponsorship of the U.S.A. and the adherence of Russia. The signature of this Pact created a very marked and favourable impression all over the world. Amongst enthusiasts for peace, rejoicings were tempered by the fact that in accepting the Pact the British Government put forward certain reservations of which the gist is contained in the following excerpts from a Note to Mr. Kellogg, which was dispatched from London :

"The language of Article I as to the renunciation of war . . . renders it desirable that I should remind Your Excellency that there are certain regions of the world, the welfare and integrity of which constitute a special and vital interest for our peace and safety. H.M. Government have been at pains to make it clear in the past that interference with these regions cannot be suffered. Their protection against attack is to the British Empire a measure of self-defence. . . . Great Britain accept(s) the new treaty upon the distinct understanding that it does not prejudice her action in this respect."

The American Government did not attempt to dispute this creation of a British Monroe Doctrine. It was generally supposed to have particular reference to Egypt, a country with whom Great Britain was at that time conducting negotiations with a view to reconciling independence with British control of the Suez Canal area. The British, how-

ever, contented themselves with placing their reservation on record and did not insist upon incorporating it into the Pact.

During the summer of 1928 some trouble was caused by revelations that in an attempt to get the business of disarmament out of the doldrums the British Government was proposing to meet the French in the matter of "trained reserves" in return for a French concession to certain British naval requirements. These bargains did not suit the U.S.A. and Italy and the brick was left lying where it had been dropped.

The Ninth Assembly, inspired by the creation of the Kellogg Pact, ordered the Disarmament Commission to reassemble and to continue its work "at the end of the present year, or in any case at the beginning of 1929." The Assembly also combined various general conventions for the pacific settlement of disputes into "The General Act." This instrument contained chapters providing for the settlement of all classes of dispute "by Conciliation, Judicial Settlement or Arbitration."

In accordance with the orders of the Assembly the Commission reassembled somewhat despondently for its sixth session in April 1929. After an inconclusive debate on the Russian proposals the Commission was obliged to adjourn. It was clear that no progress could be made whilst there were outstanding naval differences between Great Britain and the U.S.A.—differences which, as already mentioned on p. 283, had led to a sharp disagreement at the Geneva Conference of 1927.

In June 1929, Mr. Ramsay MacDonald became Prime Minister of a Labour Government in Great Britain, and in the autumn of that year he paid a visit to the U.S.A. in order to discuss the naval question with the new American President, Mr. Hoover. These conversations and other inter-governmental negotiations which had been proceeding during the summer paved the way for the London Five Power Conference (U.S.A., Great Britain, France, Italy and Japan) of January 21st, 1930.

There were two main sets of problems in front of the

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delegates. First to be mentioned shall be the Italian claim to parity with France. No agreement could be reached here, and the question was set aside for subsequent discussion by France and Italy with Great Britain cast for the rôle of mediator. The second group of problems chiefly concerned the "Ocean Powers" of Great Britain, the U.S.A. and Japan. Some agreement was found possible here, and it was embodied in a Three Power Naval Treaty covering all classes of vessels. It is summarized as follows in a Memorandum<sup>1</sup> issued on the progress of Disarmament 1919-32 by the Information Department of Chatham House:

PART I. The Five Powers agreed to a holiday from capital ship replacement construction until 1936. This in effect prolonged by five years the life of certain capital ships (which would have been scrapped in 1935 under the Washington Treaty), as construction for their replacement, which would take four years, could not be undertaken before 1936.

Further, Great Britain, U.S.A. and Japan agreed to obtain immediately, by scrapping without replacement (Great Britain 5, U.S.A. 3, Japan 1 capital ships) the figures 15:9, which would not have been reached under the Washington Treaty until 1935.

PART II contained certain technical rules and definitions.

PART III was devoted exclusively to the Three Power Agreement between Great Britain, U.S.A. and Japan, covering all categories of vessels not covered by the Washington Treaty, and establishing naval parity between Great Britain and U.S.A. By an agreement granting U.S.A. a superiority of 18 to 15 8-inch gun 10,000 ton cruisers (15 of which only will be completed before 1936) and Great Britain superiority in the smaller 6-inch gun cruisers in compensation, the controversy which broke up the 1927 Geneva Conference was solved. The Japanese demand for a 70 per cent. ratio of the United States Fleet was satisfied by a compromise which gave her parity in submarines,

Compiled by Stephen Heald.

a 70 per cent. ratio in smaller cruisers and destroyers, and a theoretical ratio of 60 per cent. in the larger cruisers, which will actually be increased to 72 per cent. as the U.S.A. only intends to complete 15 of the larger cruisers before 1936. There was also a safeguarding clause.<sup>1</sup>

One of the long-standing differences between France and Great Britain had been the question whether naval armaments should be limited by categories, or, in accordance with the French point of view, by total or "global" tonnage. In the third part of the Treaty a measure of compromise was reached upon this vexed question.

We come in 1930 to the Eleventh Assembly of the League, at which the German delegate pressed in vain for a summoning of the long-awaited Disarmament Conference not later than 1931. All the satisfaction he received was a resolution in which the Assembly with breath-taking optimism expressed its conviction that during its next session "the preparatory Commission will be able to finish the drawing up of a preliminary draft Convention and will thus enable the Council to convene, as soon as possible, a conference for the Reduction and Limitation of Armaments."

It was now becoming clear to all thinking people that a dramatic race was in progress. On the one hand the "policy of fulfilment of the Treaties," initiated in Germany at the end of 1925, was being attacked vigorously by the forces of extreme nationalism, and the discredited democratic government was under ever-increasing pressure to obtain for Germany further instalments of "equality" in all its forms and especially in armaments. On the other hand, there was an almost imperceptible movement amongst the armed powers towards fulfilling their implied pledges to disarm. It was perhaps at this point (1930, or better still in 1929), when the economic crisis had not yet brought the full force of its fury to beat upon men's heads and make

<sup>1</sup> Inserted at the instance of Great Britain in case the inability of France and Italy to agree upon the parity question should lead to an outbreak of cruiser construction on the part of these Powers.

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them shrink more than ever into their national shells, that if a supreme effort had been made to accelerate and make a reality of Disarmament, the history of Germany and of the world might have taken a different and less menacing form.<sup>1</sup> As it was, that patient and verbose beast, the Preparatory Disarmament Commission, resumed its sixth session which had adjourned in May 1929. At long last a draft convention was adopted, but it was a mass of disagreements and reservations. The Germans made reservations to the Convention in detail and objections to it as a whole. They rejected the Convention but accepted the Report of the Commission since such action would help to bring about the summoning of the Disarmament Convention. The Russians rejected everything. Great Britain, France, Japan, the U.S.A., Italy and Turkey attached important reservations to a Convention whose body had by now completely disappeared under a thick coat of national qualifications. However, this strange document went forward to the Council, who were thus faced with the inescapable duty of summoning a general Disarmament Conference. The Council met at its sixty-sixth session in January 1931 and cautiously decreed February 2nd, 1932, as the long-awaited date. Mr. Arthur Henderson was invited to be the Chairman. With true British heroism he accepted a task as unenviable as it was complimentary to him as a man and an Englishman.

So in the spring of 1931 it was with sinking hearts that the faithful in Allied countries set themselves the task of waiting yet another year, during which it was much to be feared that the general international situation would become progressively less favourable to a successful conclusion of the momentous conference. These fears were realized. Ever since the failure of Italy and France to agree at the London Naval Conference the British had been attempting to find a "formula" acceptable to both parties. Long and patient negotiations seemed to be about to bear fruit in an arrangement whereby the naval strengths of France and Italy

<sup>1</sup> In September 1930 the German elections resulted in a resounding success for the Nazi Party, whose programme included denunciation of the Treaties.

would be stabilized until 1936, the date when a new conference was to meet. On March 18th the plan was rejected by France, and one of her reasons became apparent five days later when a project was announced for a Customs Union between Germany and Austria. Storm-signals were flying in every direction on the political horizon. In the Far East, Japan was preparing to seize Manchuria, in Europe the prospects of peace in Germany were doubtful. But the great menace to international co-operation was by this time (1930-31) clearly arising from the side of economics. The rapidly falling price level, the critical situation in which the overseas agricultural countries found themselves, the shakiness of the foreign exchanges, the cessation of foreign investment by the U.S.A., the growth of unemployment in all industrial countries, were some of the phenomena, in part symptoms, in part causes of the terrible economic crisis which was gathering strength from day to day, and was to produce fatal effects upon the schemes for the Organization of Peace.

It is to the story of this tremendous economic collapse that we must now turn, and leave over to Volume II an account of how economic nationalism, greatly reinforced by the experiences of the slump, exercised a deep influence upon international political relations.

## SAILING DIRECTIONS—II

### I

FOR the second time in this study of Our Own Times it becomes necessary for us to examine our historical chart and establish thereon certain leading marks upon which we can direct our course as we steer amidst the shoals, sand-banks and rocks of doubtful statistics, biased opinions and imperfect knowledge. The chart upon which we must now navigate embraces the period 1925-26 to 1931, years of tremendous contrasts; of sunshine and storm. We can now slip the chart for the period 1919 to 1925-26 back into its folder with the reflection that as we spread its successor upon the table, the navigational prospects seem hopeful.

We will summarize—even though it involves repetition—the main features of the world picture as it looked in 1925-26.

The mighty engine of world war whose motive power was cut off on November 11th, 1918, and which under the influence of an immense momentum had rolled ruthlessly forward into the years of Peace, seemed to have been brought to rest by the buffers of Locarno. Germany had entered the League in September 1926 and sat as a permanent member of its Council. France and Germany, within the framework of the League, were pledged to co-operate in the task of implementing the Peace Treaty. Though ignored for several years this League system had at last come into its own, and its growing prestige was a favourable augury for the success of the difficult task of organizing peace and ensuring disarmament. Geneva had become an indispensable centre for that international, political, economic and cultural co-operation which seemed likely to grow from year to year.<sup>1</sup> At one time it had seemed that two dictator-

<sup>1</sup> A general examination and description of the position occupied by the League of Nations during Our Own Times will be found in Vol. II.

ships would menace peace, but by 1926 there was evidence that the Fascists in Italy were concerned more with the internal development of their country than with adventures in foreign politics; Mussolini was rapidly qualifying for the reputation of being one of the most ardent supporters of the new attempt to organize peace through Geneva, whilst though Russia still held aloof from the League, yet here also it could be said that the outlook was far more favourable to peace than would have seemed possible a few years before. Whilst the capitalist Powers had failed to overthrow a Communist regime in Russia which they considered to be an international menace of the first order, it was also true that Russia had put well in the background her policy of fostering world-revolution, and brought forward a policy of internal reconstruction and the building up of a "model" Socialist state on the foundation of an industrialized economy. Stalin was defeating Trotsky. The easing of the situation between Russia and the West was shown by the fact that normal diplomatic relations were being resumed between the Soviet Republics and many of the Western Powers.

In the Near East the newly founded Republic of Turkey was successfully established under the strong rule of Mustafa Kemal Pasha; its dispute with Great Britain over Mosul had been settled and the difficulties arising from the existence in Turkey of thousands of Greeks, and in Greece of thousands of Turks, had been solved by a vast exchange of population. In both these matters the League played an indispensable part.

Great Britain had settled a great general strike in 1926 by methods which afforded an object lesson to the world of the essential soundness and political wisdom of the people of the United Kingdom. The British Empire had been faced with its own peculiar post-War problems. They had been resolutely tackled. The Irish question seemed to have been buried at the birth of a new Dominion; the unprecedented constitutional experiment in India was being patiently pursued and the delicate question of the relations between the self-governing portions of the Empire had been frankly discussed in conference.

The economic state of Europe seemed ready to benefit from the general improvement in the political situation. On the financial side Great Britain, as we shall see, had at great risk and by great sacrifice given a lead to the world by returning to the gold standard. The French, whose franc was still suffering severely from the consequences of the Franco-German struggle, particularly the Ruhr adventure, were taking action which was expected to lead to the stabilization of the French currency. Germany had abandoned her mark in the depths of her great inflation and had created a new standard of value—the Reichsmark. A number of other states had either stabilized their currencies or were preparing to do so. The post-War economic and financial chaos in Austria and Hungary had been cleared up by the united action of the Powers working through the League—yet another example of the growing usefulness of this creation of the Peace Conference, and a good example, for the League managed to save Central Europe when all other measures had failed.

Across the Atlantic the outlook was also good. The period under review had opened with the withdrawal from European affairs of the U.S.A. It had closed with a series of settlements of the European debts to America; agreements which appeared to be as final in this field of international finance as was the Dawes Scheme in that of Reparations.

The Chinese civilization still presented a vast picture of confusion, but at least it can be claimed that in 1925–1926 the dangers of international conflict between Japan and the Western Powers over the question of Japanese ambitions in China and North-West Asia had been averted by the Washington Conference and its consequent treaties. Whether by conviction or by necessity it seemed that Japan had, to outward appearances, abandoned her policy of expansion by force and resigned herself to the new system of conducting world affairs through and in accordance with the Covenant of the League. At one time it was feared by the West that Communism exported from Russia would control China, but the Chinese Nationalists

had expelled their Russian teachers and advisers, and, with the sympathetic goodwill of Great Britain, they were apparently making some progress towards establishing at Nanking a central government for China.

Finally, Nature, as if smiling benevolently at the efforts of men to co-operate for peace and introduce order into a disordered world, had granted Europe a bumper harvest for the season 1925-26.

It was for such reasons that round about 1925-26 there sprang up in many parts of the world a feeling of confidence in the future; a hopefulness which had been absent from men's minds since 1913, so that when it returned it did so with the violent and exuberant passion of long-pent-up emotion. The aeroplane of civilization, long overloaded with the burden of the after-the-War difficulties, began to move in 1926. It was still on the ground, but surely it would gather speed and then would come the moment when upon wide wings of political security and economic stability, it would open a new chapter of history by rising with its freight of humanity into astral and hitherto unknown regions of peace, prosperity and plenty.

Bravely and hopefully humanity prepared to resume the march of progress which had been interrupted in 1914; to resume it, pledged never again to stray into the wilderness of war. At last satisfaction was to be given to the spirits of the millions who had died upon the battlefields, the ghosts who haunted the minds of men of imagination and sensitiveness as each Armistice Day dawned with its question: "Was their sacrifice worth while?" As men in 1925-26 looked back upon the troubled years which stretched between them and the memories of the prosperities of 1913, there seemed many and good reasons for supposing that the worst was over and that Peace had dawned at last.

It was a picture such as this which provided these hopes for the future upon which were reared the structure of economic achievement which overtoppled in 1929 with dire consequences, not only to itself, but to the political assumptions which were part of its support.

A practical problem which vexed the author of this book was to discover the best way in which to survey the tangled story of events which occurred in world history between 1926-27 and 1931. If it had been a case of confining our attention to narrative, the problem would have resolved itself into one of deciding how to interlock three stories: That of the post-War general economic recovery (we have dealt with the international political improvement) which culminated in the boom of 1929; the economic crisis and slump; and the political collapse of which the failure to reach international agreement upon disarmament was one of the most significant features. But an account of the chronology of these events would constitute a very incomplete picture of the whole business we are attempting to describe and analyse. We need not only an account of action, but also a statement of the whole setting in which decisions were taken and policies applied.

In the opening chapters of this book an attempt was made to perform this latter task for the world of the times which are past; the wilderness and paradises from which man has travelled. A similar kind of sketch is required for the post-War world of Our Own Times. The synthesis of the march of events with the *motif* of the tune to which they marched has been so difficult that the final result of many experiments is still far short of what it should be . . . but perhaps it will serve until more skilful hands undertake the task.

The scheme adopted has been as follows: we shall begin with a chapter called "A View of the Post-War World." Its purpose is comparable with that of Chapter I, inasmuch as it aims at creating a background against which shall be seen the march of events—particularly economic events—soon to be described. It was in this post-War world that our own country struggled to apply certain financial and commercial policies. As we shall see, it may be that in these struggles we did not sufficiently appreciate the differences between the pre-War and post-War worlds. The

story of the British battles for the re-establishment of an international monetary and commercial system requires two chapters. The first, which is concerned with finance, ends with victory achieved; the second, which deals with commercial policy, shows how Great Britain was repulsed in her attempts to carry by assault the ramparts of economic nationalism. But before we proceed to examine the effect upon finance of the failure to re-establish nineteenth-century principles of free trade, we must take note that the world enjoyed an economic recovery from war conditions, preceded by a short boom and slump (1920-21), which was unevenly spread across the world. This recovery was due in part to the improvement in the international political situation which, as we have noted, became conspicuous in many parts of the world about 1925-26, in part to the British victory for gold standard finance, and also to technical progress. This recovery was not shared by Europe till 1926; Great Britain never did more than see the cup approach her lips in 1929 before the world crisis dashed it to the ground.

An account of this post-War recovery is contained in Chapter XVII. We shall then have reached a stage in our story when the nations of the world, writhing in the toils of the ever-growing crisis, struggled by various means to extricate themselves from their economic predicaments. We believe that the means used were palliatives which made little impression upon the real causes of the evil. They were attempts to cure a deep-seated disease by covering up the symptoms. This is the subject of the chapter entitled "Cart before Horse." Notwithstanding the many attempts made everywhere to hold up the slump, it advanced relentlessly and in so doing put an ever-increasing pressure upon the newly reconstructed structure of international finance. In the chapter "Financial Crisis" we examine the beginnings of the collapse of finance, a collapse which, beginning in Central Europe, spread first to Germany and then to Great Britain. We end this first volume with the dramatic story of the death of the gold £, an event which—so far as it is just to make such generalizations—marked the end of the

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nineteenth century. Great Britain's action in abandoning the gold standard in September 1931, a standard she had re-established but six years previously, was an event of immense significance to the world. It opened a new chapter in British economic policy, and in 1931, as at the beginning of the nineteenth century, British policy was world-wide in its influence.

## CHAPTER XIV

### A VIEW OF THE POST-WAR WORLD

“ The Universe is change ; our life is what our thoughts make it.”

MARCUS AURELIUS, *Meditations*.

“ When the shuttles fly back and forth of themselves, and the plectrum, untouched by human hands, makes the strings of the lyre resound ! ”

ARISTOTLE.

#### I

PROFOUND and comparatively rapid changes in men's opinions as to the economic or political doctrines most worthy of practice, generate forces which beat and press outwards upon the structure of society in which they are imprisoned. This structure is necessarily the product of the old ideas and it has taken shape in obedience to their commands. Let us look back for an instant.

In Chapter I there is a description of how the world economic system took on certain forms very largely in response to the requirements of commercial theories held by the British who happened at that time to be politically dominant in the world. Again in Chapter II there is some account of how the economic system which had been universal was forced to submit itself to men's political ambitions and divide itself into two parts, each of which was then obliged to transform itself into a machine specializing in the business of meeting war needs.

It was suggested that “ new ideas ” inevitably find themselves caged and “ imprisoned ” in a social structure out of harmony with their aims and objects. In the course of time a lack of balance will grow up within the organization between the forces of conservatism and radicalism, and this disequilibrium will gradually accumulate in magnitude until the moment when the disparity between the two is so

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great that a revolutionary phase begins. The organization then enters a period of crisis. This process occurs in the life of an individual, in a small firm, in a vast combine, in a political party, in a nation, and in the great society of man.

Although the crisis cannot be avoided, its duration and intensity will be conditioned by the extent to which the structure of the organization can be adapted to the new form.

It has been the good fortune of the people of Great Britain that their character has been such that it has enabled them to create a social organization renowned for the happy proportion in which it has combined strength and flexibility; permanence and progressiveness. The framework in which our people have worked out their destiny has shown an acrobatic ability to alter its shape without bursting open its joints.

Returning from this excursion into the general case, to consideration of the particular example of the post-War changes we start from the fact that great changes in political and economic ideas were clearly beginning to take place just before the War. The paradox of men trying to compete and co-operate at one and the same moment was once more approaching one of its obvious manifestations. The world social-economic system was supposed to be "free"; it was becoming more and more controlled. It was supposed to be based on *laissez-faire*; it was beginning to be "planned." It was politically national, economically international.

It is idle to speculate as to whether this paradox could have been resolved in an orderly manner had there been no War. It may be that the powerful economic forces working towards world unity would have triumphed over political differences if the world could have worked out the problem through years of peace, but no such opportunity occurred because the political forces of nationalism, as if apprehensive that time was on the side of economics, burst forth into War, and in a few days the world economic system had collapsed into ruins.

With these reflections in mind we will take a glance at the post-War world and take note of some of the most significant differences between the world of 1913 and that of the post-War years. Here we desire particularly to remind the reader of those remarks made in the Introduction to this study, wherein it is explained that the writer proposed to adopt the notion of using his mind as a cinema camera which sometimes takes "close-ups," sometimes "long-distance shots." The amount of material available for this chapter would easily fill many volumes, and no attempt has been made to write a comprehensive survey of the nature of the post-War world. The remainder of this chapter aims at being a cinematic and scenario-like impression of the post-War world, with particular regard to those aspects in which it contrasted violently with the world of the nineteenth century.

We will first consider population factors. After making all allowances for the imperfections of demographic statistics certain post-War tendencies seem to be established. One of the most important of these has been the growing tendency towards stabilization of the population of Western Europe. This movement has been accompanied by a flight from the countryside into the towns, coupled with a change in the geographical location of industry such as its southward drift in Great Britain. On the other hand, there has been a rapid increase of population in Eastern Europe. Secondly, the improvement in hygienic conditions which has taken place in Asia has reduced the death-rate of the teeming millions in India and Asia, and in general—this fact is confirmed by U.S.A. statistics—it may be said that population in the post-War period has been increasing fastest in those parts of the world which have not yet felt the iron hand of industry. A most important development of almost incalculable social and economic consequences has been the rapid spread during recent years of the knowledge of contraceptive methods. Population is to an increasing degree being "planned" in a restrictive sense. In pre-War days the practice of contraception was the almost exclusive amusement and privilege of the wealthier classes.

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The proletariat were true to the Roman origin of their name. For instance, whereas in Berlin in 1909 it was estimated that the birth-rate in a poor district was 32-1000 and 15-1000 in a well-to-do district; by 1929 it was estimated that there was no appreciable difference between the fertility rate of upper and lower classes. Other factors which have and are tending to cause smaller families amongst Western men are such matters as the increased emancipation of women, the growing popularity of the flat as a residence, and the decreasing influences of the churches—even that of Rome. Some mention has already been made in Chapter XI of the great tides of human migration which flowed westward from Europe during the nineteenth century, and how for political-economic reasons this tide was checked until during the world crisis it became a trickle eastward. Apart from this great check to human movement, the most significant post-War migration tendency was a great surge of humanity northwards from China to Manchuria. Its annual average during the first decade of post-War history was in the region of half a million persons.

In summary, the chief difference between pre-War and post-War population questions was that before the War there was freedom of multiplication and migration, whereas after the War there was control of multiplication and restriction of movement. Secondly, the Western men were becoming stabilized in their numbers, and the main centres of increase and of such free movement of population as occurred were in Asia.

It was no accident or chance coincidence that the rapid increase of population during the nineteenth century and the belching forth of the smoky first industrial revolution both took place in Western Europe. The industrial revolution, which made Great Britain the first workshop of the world, produced capital goods as well as consumers' goods, and the former, in the shape of lathes, locomotives, steam-hammers, textile machinery and tools of all kinds, were carried across the seas and, taking root in their new homes, caused industry to grow up in the overseas lands and attracted labour from all parts of the earth. The rise of the

U.S.A. as a great industrial force was a pre-War phenomenon accentuated during the War (as provider-in-chief to the Allied belligerents) and exaggerated during the post-War years. But the industrialization of Japan; the beginnings thereof in India and China; the rise of industry in Canada and the great experiment in Russia, were post-War phenomena. The clear-cut distinction between the industrialized and raw-material producing areas of the world which had characterized the nineteenth century was becoming blurred during the post-War years. There was a tendency to integrate industry and agriculture, but, as politically the world was anarchic, the integration took place within national frontiers.

Not only did the nineteenth-century industrial revolution spread its tentacles across the seas, but by the post-War years it had evolved so greatly and so rapidly that the post-War world may be said to have been experiencing *the second industrial revolution*.

One of the most important of these new developments was the relatively rapid development in the mechanization of agriculture. The inhabitants of the world had long been accustomed to depend to an increasing extent upon machine-produced articles for their transport, their housing, their fuel and their clothes, but their food supply had still been hand-produced; "Cursed is the ground for thy sake; in sorrow shalt thou eat of it all the days of thy life; thorns also and thistles shall it bring forth to thee; and thou shalt eat the herb of the field. In the sweat of thy face shalt thou eat bread."

The advent of the combined harvester, the use in agriculture of the motor-tractor and many other mechanical devices softened the harshness of the curse of Adam. The work of the biologist and the pestologist increased the productivity of beast and plant.<sup>1</sup>

The following table illustrates the trend. The figure for 1930 foreshadows the crisis.

<sup>1</sup> See *World Agriculture*, Chapter III. A study group report of the Royal Institute of International Affairs. Oxford University Press.

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TABLE OF EXPORTS OF COMBINE HARVESTER-  
THRESHERS AND THRESHERS (COL. A) AND  
TRACTORS (COL. B) FROM U.S.A.

<i>Year</i>	<i>Column A</i>	<i>Column B</i>
1925	1,720	45,946
1926	4,444	51,242
1927	4,705	58,279
1928	7,317	57,869
1929	10,887	60,155
1930	6,573	48,896

*Note.*—In June 1914 270 Combine-Harvesters were manufactured in the U.S.A.

The mechanization of agriculture, coupled with the application to the business of food production of a degree and extent of scientific research comparable to that which it has for long been customary to apply to such branches of human activity as the chemical, metallurgical and textile industries, is a revolutionary happening which will almost certainly have enormously important consequences. Mr. Walter Elliot, M.P., whose emergence in 1933 as Agricultural-Planner-in-Chief for Great Britain was to be an interesting crisis phenomenon, made a picture of some aspects of the twentieth-century world when he said : <sup>1</sup>

“ If the problems with which we are dealing are really inherent in the structure of our century, and not merely madness, they demand the most meticulous examination. Is there any factor specially producing a change in our outlook to-day? Yes. One in particular. Production to-day is becoming decentralized, international trade becomes less and less an interchange of specialized lines of production, and more and more a competition in similar lines. This is in sharp contrast to the trend of international trade in the last hundred years when production became highly specialized, and centralized itself in a small group of industrial areas and nations. This change comes about partly from ordinary human desires

<sup>1</sup> In his Rectorial Address at Aberdeen, January 18th, 1934.

and partly from the powers of modern science. The ordinary human cause is simply that no one likes to admit that he is unable to do something that he sees to be within the powers of his neighbour. Furthermore, unemployment, which is merely one of the signs of the increasing leisure of our times, makes it less important that everything should be done at the maximum possible speed, and only at this speed, and allows and indeed compels the idle hands to try out continually something or anything they can do. These experiments require the concurrence of the consumer as well as the producer since cheapness is not the final criterion. The consumer can only give his consent through his political organization, which is the state. Thus the national unit is born. The powers of modern science tend to ensure that, given determination, it becomes more and more feasible for the old specialized lines to be produced anywhere in the world, or to be replaced by others just as good. Thus the national unit becomes possible. I do not say desirable, but it does become possible.

"We have been told so often that the whole world is every day becoming more and more interdependent that we are apt to brush aside any examination of the points where that is not true. But there are many points where it is not true. . . . The formula of the continually increasing interdependence of the world requires qualification as much as any other. . . .

"I will give you three, drawn literally from the air around us. In the nineteenth century a great trade was built up with South America in a new and important commodity—nitrate for fertiliser. Ships were built, sailed the ocean to the coasts under the Andes, the nitrate was brought home, spread on our fields, production increased, and all, including the economists, were happy. Steel rails went out and nitrate came back, import and export returns went up, large fortunes were made in financing loans to the countries abroad which produced the nitrate, international lending improved, and the economists were happier still. Meanwhile the scientists

## *A View of the Post-War World*

were at work. . . . 'Air,' they said, 'is mostly nitrogen. There is thus a column mainly of nitrogen, between forty and sixty miles in height, balanced on every one of the fields to which this nitrate is being so laboriously carried. . . . 'Do you really want nitrates?' they said to Europe. And Europe said, 'Why, naturally.' And the scientists said, 'Do you mind if we get it at home?' And the agriculturists said, in a low voice so as not to be overheard by the economists, 'Not at all.' Meanwhile the loans floated and the ships sailed, and fought their way out from Liverpool to Cape Horn under a canopy of nitrogen nine thousand miles long and sixty miles deep, battled round Cape Horn against a torrent of nitrogen blowing at fifty miles an hour, loaded up in South America with nitrogen, came spinning home on the wings of the wind, 80 per cent. nitrogen, all the way to Britain again—till suddenly a scientist turned a switch, an electric arc began to sizzle, and nitrate began to fall like snow out of the air, upon the very regions to which these ships were hurrying. Now, was this good for Trade? It was good for Production. It was bad for Trade. Europe was henceforward self-contained, if it desired, for nitrate fertilizers. And note that this was brought about without either lowering the quality of the fertilizer—for nitrate is nitrate all the world over—or lowering the standard of living of those who used it. For it was cheaper than ever.

"You will see the same factors at work to-night, if you look inside and outside any one of the half-dozen shops in Union Street. Electric-light bulbs within the shop typify the interdependence of humanity, the whole illumination coming from a filament of heated tungsten, or some other rare-metal alloy, only to be obtained in some distant corner of the earth after the floating of the appropriate loan, and the building of the appropriate railway, with its appropriate Ordinary Shares, its First Preference, its Second Preference, and all the other appropriate preliminaries to default. But look inside the shop and see a dazzling electric light of a novel kind—the

Neon sign. Neon is a constituent of the air about us—there is enough neon in this hall to light it all for ever, and as fast as it is carried away more will flow in to take its place. I do not say that the problems of lighting have all been solved in this sense yet, or that filament lamps will become obsolete and never be used again. But I do say that it is the old lamp and not the new which demands interdependence of nations, international lending and all the paraphernalia of the nineteenth-century economics which was handed out to the people like a revelation from Sinai. I do not need to detain you with the third example in detail. I need only say that the chemists are now handling artificial plastics, the new artificial resins and gums, by which they make a wood of their own which can be moulded and cut and hold its form and texture for ever, and never remember that it was originally not even gum, but gas, acetylene gas such as we used to burn in the headlights of our motor-cycles, and can produce anywhere that there is chalk and coal, and never worry any more about walnut or maple, or the mahogany which took our forefathers to the West Indies.

“There is yet another whole section of the world’s work where interdependence is no such certain sequence as it was once assumed to be. That is the section of foreign investment. No one has ever thought it desirable to broadcast very widely the economic facts about foreign investment as a whole. Sir Arthur Michael Samuel, M.P., formerly Financial Secretary to the Treasury, recently published a few useful observations upon it.<sup>1</sup>

“He reviews the whole course of capital movements from this country over fifty years and he says:

““In my opinion a good part of the original “new” money overseas loans has been lost. These original loans went overseas in the forms of exports. Many of the loan certificates issued by the borrowers and received by our investors are to-day valueless. The exports paid for by

<sup>1</sup> “Has Foreign Investment Paid?” *Economic Journal*, March 1930.

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loans made by us, and defaulted upon by the borrowers have, in effect, been a free gift by us to the borrowers. Do we realize that? ”

Thus Mr. Walter Elliot, planner of a Brave New World.

. . . . .

In respect of communications the post-War period introduced men to the possibilities of the wireless wave as a carrier of thought and emotions. It is a particular temptation to the present writer to discuss the significance of broadcasting, but this is not the place in which to do more than to suggest that the “invention” of broadcasting ranks with that of printing, and to remind the reader that the British Broadcasting Company was founded as recently as 1922.<sup>1</sup> The commercial use of wireless telephony and telegraphic transmission of pictures are also post-War developments. Between 1920 and 1933 a system was built up—with London as its international exchange—which linked into one network practically every telephone subscriber in the world. The world became a whispering gallery. The extended use of the motor-car for pleasure and commerce was also a post-War development which led to a rapid advance in road construction and raised difficult problems for rail transport. In 1913 the motor-car industry was comparatively insignificant; by 1929 there were over 35 million cars on the roads of the world; of these 26½ million were in the U.S.A., a country in which 83 per cent. of the world’s cars were mass-produced in 1928. The development of the motor-car led to great public expenditure on roads and—though the point cannot be elaborated here—to profound changes in social life. It was typical of the post-War economic progress we are now considering that it produced caterpillar-track motor vehicles which ousted the camel as a means of desert transport. The second industrial revolution affected sea-transport. Ten years after the end of the War, one-half of the merchant

<sup>1</sup> The number of annual licences issued in Great Britain at the end of 1933 exceeded 5,000,000. There were probably about 180,000,000 listeners in the world at that time.

## Our Own Times

ships under construction were motor-vessels and the Blue Ribbon of the North Atlantic was about to pass from England to Germany, whose wonder ship, the *Bremen*, was driven at a speed of 29 knots.<sup>1</sup> In 1929 the German pocket-battleship, *Deutschland*, startled the Admiralties of the world by her qualities on a 10,000 tons displacement. This result was obtained by the use of electrical welding instead of riveting. Finally, the aeroplane emerged as the best high-speed carrier of passengers and mails. By 1933 world air routes covered 200,000 miles. In 1919 the length of regularly operated British air lines totalled 270 miles. By 1933 the comparable figure was 14,000, and each month witnessed an extension of this method of transport. Air mail traffic from the United Kingdom grew as follows :

	1925	1933
Letters . . .	15,210 lb.	191,320 lb.
Parcels . . .	56,120 lb.	156,992 lb.

In summary one can imagine the developments of all forms of communications and transport, in short the growth of SPEED which has been one of the most startling characteristics of Our Own Times, as having caused the world to shrink in terms of the time-space factor, which is one of the governing elements in man's life on earth.

The old-established industries which had been mechanized by the first industrial revolution did not escape the influence of the post-War economic revival. In their case they were subjected to a process of refinement and slimming. In the early years of the nineteenth century men were being replaced by machines in what we now call the basic industries (Steel and Iron, Engineering, Textiles, etc.), the horse was giving way to the steam locomotive, and the sailing ship was dipping her flag and being passed by the steam-driven iron vessel. In the post-War economic advance, machines were replaced by better machines, for the machine

<sup>1</sup> MALHEIM : We *have* to beat you in the world market struggle, or else how can we pay reparations? The *Bremen* *must* beat the *Mauretania*. That is the unexpected consequence of the Treaty of Versailles. From Act I, Sc. i., *B.J. One* (produced 1930). *Three Plays and a Plaything*, Stephen King-Hall.

evolves like a living thing; it breeds bigger and better machines which displace their parents. The nineteenth-century machines made it uneconomic to employ human labour for manual work, but the humans were needed to tend the machine. The post-War machines are very largely automatic, as exemplified by the plant in Ford's works which permit five men to supervise the production of all the glass needed by an output of thousands of motor-cars a day. This development of the "automatic" machine, accompanied by the integration, both horizontally and vertically, of the processes of production and distribution has once more brought into prominence the question of the displacement of labour which became acute at the beginning of the nineteenth century. Whether or not the classical explanation of what had happened to the displaced workers in 1828 was equally valid in 1928 is a problem furiously discussed. The economic progress of the twentieth century altered the meaning conveyed by the word "factory." That word had once meant a building, usually hideously ugly and full of men and machinery producing goods in dirty and noisy conditions. The post-War factory was clean, full of machines—often noisy, though the problem of "noise" was being tackled—but often sparsely populated by men.

The economic progress of the post-War era also introduced us to the words "mass production" and "rationalization."

The broad object of "rationalization" and "mass production" was that of increasing the efficiency of a machine system which was already in being. The first industrial revolution was brought about by the application of mechanized energy to the first needs of men—agriculture excepted. It was a crudish affair, rough and not at all efficient. The early industrialists were like settlers on virgin soil, they exploited the apparently limitless possibilities of the new fields with a rough and careless energy.

The difference in output between the hand-loom<sup>1</sup> factory of the seventeenth century and a mechanized weaving

<sup>1</sup> Queen Elizabeth's government legislated against hand-loom on the grounds that they endangered the position of the hand-weavers.

factory of 1850 was so tremendous that it seemed almost insulting intelligence to spend thought on radical improvements to the power-driven loom; but by 1932 the automatic loom had established itself and we were hearing of the "more looms to weaver" movement.

The first industrial revolution was fuelled by coal. The British supply was abundant; the industry grew up chaotically in a rich and rollicking *laissez-faire* atmosphere. Coal was King and the monarch was supreme; but oil and electricity were making ready to challenge his powers, and the rapid growth of the use of these two sources of energy is part of the story of the post-War economic movement. On the other hand, it is very significant that another part of the story of this post-War economic movement is the fact that the coal industry was conspicuous by its failure to expand. In the U.S.A. the production of crude petroleum and electrical energy increased respectively by 39 per cent. and 50 per cent. during the period 1925 to 1929. In Great Britain the Central Electricity Board was established in order to control the grid system which aimed at rationalizing and increasing the production and use of electric power.

Not only did the post-War recovery include marked technical and administrative advances in the conduct of the older industries, but it was also responsible for the creation of many new industries. The chief characteristic of these new-comers was that they were what the nineteenth-century men would have called "secondary" industries, manufacturing articles of the semi-luxury type.

The motor, aircraft, wireless, newspaper, artificial silk, cinema, plastic, cigarette, stainless steel, carbon dioxide ice, broadcasting and gramophone industries were the children of the second industrial revolution. Many of these industries afforded employment to women, a circumstance tending to raise the family income and to increase the range of consumption of the working classes.

This rise in incomes per head produced important changes in social habits. In the first instance a smaller proportion of each income was spent on food and a larger proportion

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upon other consumable goods; in the second instance the consumer demanded a greater variety of foods. In the language of economists the world's food consumption per head is highly inelastic, by which they mean that the human stomach has a limited capacity as regards quantity. It has, however, an infinite capacity for change in respect of quality and variety. The consumption of wheat grown in the U.S.A. fell from 223·9 lbs. per head in 1889 to 195·4 lbs. per head in 1919, and 175·2 lbs. per head in 1929. It is true that of recent years there has been the beginnings of what may become a significant change-over on the part of the Chinese and Japanese from rice to wheat, but this has been more than offset by the decreased consumption in Western Europe and America. The world was, however, consuming more meat since, although its population rose by 10 per cent. (approximately) between 1913 and 1928, its meat population rose 20 per cent. during the same period. World statistics showing changes in consumption of foodstuffs are not available, but the following table for the United Kingdom illustrates what has been a universal trend.

### HOME CONSUMPTION IN LB. PER HEAD IN THE UNITED KINGDOM <sup>1</sup>

	1913	1928		1913	1928
Butter <sup>2</sup>	9·9	14·6	Beef	22·2	33·1
Margarine	3·7	2·7	Bacon and Ham	13·7	23·1
Cheese	5·5	7·3	Tea	6·7	9·2
Coffee	0·6	0·8	Tobacco	2·1	3·1
Eggs (number)	56·0	69·0	Beer (galls.)	27·9	16·2
Dried Fruit	4·8	6·1			

Apart from changes in diet the last twenty years have witnessed enormous changes in the general mode of life of civilized man. This is a subject which requires volumes for its adequate treatment, and here we must be content with observing that not only have the luxuries of the

<sup>1</sup> From Statistical Abstract for the United Kingdom, 1929.

<sup>2</sup> It is interesting to note the following Danish figures of margarine consumption in kilograms:—

	1913	1926	1928
Denmark . . .	15·6	20·7	22·0

nineteenth century become the necessities of to-day, but a vast new range of consumable goods (and capital goods for their production) have come into being. In a material sense there has been a very rapid rise in the general standard of living of men, and a substantial increase of his leisure time.

Especially in Great Britain and Germany, Our Own Times up to the crisis witnessed a rapid increase of public expenditure on social services (Education, Housing, Insurance, Health and Unemployment). For instance, in Great Britain the expenditure on publicly provided education rose eightfold in the period 1890-1925. In 1913 in Holland social services absorbed 13.6 per cent. of the revenue, and 32.4 per cent. in 1930. This world-wide phenomenon of the rise of expenditure on social services resulted in a corresponding increase in direct taxation upon the incomes of the wealthy, whose earnings were thus distributed by the state in the shape of "services" amongst the poor. To the rich man it was not what the state took which became significant, but what it left.

Although the scheme of this study and the space available do not permit of any account being given of the extraordinary range and variety of the work done in the fields of pure and applied science during Our Own Times, a moment's reflection will suffice to remind us that without the work of the scientists, whether physicists, botanists, chemists, or members of any other of the hundreds of specialist branches of research workers, the second industrial revolution with all its startling and disturbing social consequences would never have been born.

The connection between the Great War and this second industrial revolution, *a few* of whose aspects and consequences we have noticed, was very close. It is reasonable to consider that all the startling post-War developments existed in embryo in the pre-War world and that the time of their delivery into the service of man was accelerated by the advent of the War, which brought about a kind of premature birth of economic progress. In many respects the second industrial revolution was a War-baby, for it was the rapidity of the economic and industrial advance

which gave it a revolutionary flavour. In the first place, the urgency of War needs stimulated technical advance in production, such as the development of the internal combustion engine, the fixation of nitrogen from the atmosphere<sup>1</sup> and the organization of mass production. Under the influence of war needs, money was lavished upon research, and inventive genius was stimulated. Secondly, the immensity of the War problems rapidly obliged governments in neutral as well as belligerent states to intervene to an unprecedented degree in the day-to-day conduct of private business. By 1918 the state was in full control of economic life in almost every country in the world. Although there was a reaction against state control immediately after the War, the hand of bureaucracy only grudgingly and partially released its grip upon the throat of private enterprise, and the pure doctrine of *laissez-faire* was definitely relegated in principle to the scrap-heap upon which it had in practice been lying for some time. The problem became one of how to reconcile the alleged advantages in the shape of efficiency, initiative, etc., to be found in the system of private enterprise with the political necessity of retaining, and indeed extending, such a measure of state control as was requisite for the welfare of the whole community. How, in fact, Socialism could be disguised as Capitalism.<sup>2</sup>

Mention has already been made in Chapter I of the pre-War growth of state interference into economic life, and we have pointed out that the War accelerated this tendency. The following figures have been selected from a mass of evidence as illustrations of the widespread extent of the growth of state control.<sup>3</sup> In Europe the railway industry often represents one-twelfth of the national wealth of a country, and whereas (excluding Russia) the state-owned railways in 1913 accounted for 54 per cent. of the mileage,

<sup>1</sup> Accelerated by the British naval blockade which stimulated scientific research in Germany where fertilisers were badly needed for agricultural production.

<sup>2</sup> For further discussion of this problem, see "Conclusions," Vol. II.

<sup>3</sup> The author is indebted here to Professor Viljoen's excellently documented work, *The Economic Tendencies of To-day*, P. S. King & Son, London, 1933. See also *The State and Economic Life*, published by Institute of Intellectual Co-operation, Paris.

the comparable figure for 1926 was 67 per cent. In Germany state and municipal undertakings increased greatly during the post-War pre-crisis years. The public authorities generated 23.6 per cent. of the electrical power of Germany in 1913, by 1926 they were responsible for 76.8 per cent. In 1913 50 per cent. of the tramway system was municipally owned. In 1927 the publicly owned proportion had risen to 73 per cent., and by 1930 only 4 per cent. of water undertakings were private. The state was becoming increasingly interested in the mining industry, and in 1927 government works were responsible for 84 per cent. of the aluminium production and (in 1925) for 18.8 per cent. of the iron ore, as compared with 10.4 per cent. in 1913.

In Switzerland in 1927 the state owned 73 per cent. of the forests, 50 per cent. of the water power, 80 per cent. of the capital in railways, and was interested in banking and insurance. Similar data are available for most countries, least of all in the U.S.A., most in the Teutonic countries. In Japan the post-War era witnessed a very extensive, if partially disguised, state control over the banking, shipping, industrial and agricultural activities of the country. In Great Britain the remarkable growth of state control in the fields of transport, housing, electrification, etc., will be too well known to the reader to need description. In our country it has developed along special lines, exemplified by the B.B.C., peculiarly the product of the British genius for compromise. Another pre-War phenomenon which, whilst not "state" was not "private," and which grew by leaps and bounds during the post-War period, was the Consumers' Co-operative Movement. By 1932 there were 70 to 80 million co-operatives in thirty-six countries. In Great Britain, the home of the movement,<sup>1</sup> the "co-op." membership increased from 1.8 millions in 1901 to over 6 millions in 1929, at which date the share capital of the societies amounted to £107,000,000.

The above illustrations refer to the post-War years before the crisis, and, as we shall see, when the slump dealt severe blows at the profitability of private enterprise, the state by

<sup>1</sup> It originated in 1844 with the Rochdale Pioneers.

means of subsidies, tariffs, quotas, marketing schemes, was forced to intervene still further into "private" economic life.

Another consequence of the War we must mention here was the fact that it changed the frontiers of Europe and created a number of new states each of which was inspired by an intensely strong nationalist spirit. To these states the spirit of economic nationalism was the breath of their new-born life. We have noted that the United States of America became nationally conscious during the post-War period and suddenly decided for political reasons to restrict immigration.<sup>1</sup> She raised her tariffs to protect the home market, oblivious of the fact that the War had made her the great creditor nation, and that in the long-run both her War loans and her post-War loans could only be repaid by her acceptance of imported goods. Even in Great Britain, small protective duties originally imposed during the War to check imports and save shipping space, were retained ostensibly for revenue purposes.

In the British Empire the War stimulated the self-consciousness of nations and, as we have noted in Chapter XII, created a special aspect of the problem of how to combine the private political enterprise of Dominion status with the manifest advantages of a rationalized British Commonwealth of Nations pursuing a common policy for common aims.

Another consequence of the War was seen in various measures restrictive of international trade which were imposed for reasons of international defence. The "lessons" of the War in a strategic sense showed that it might be dangerous for a country not to possess optical glass works, chemical dye industries (for the manufacture of poison gas and explosives), an adequate supply of home-grown food, agricultural resources, aircraft and shipping. These "lessons" were held to justify the introduction of special tariffs and subsidies to foster industries "vital to the national security."

Mention must also be made of the fact that the War inevitably had the effect of concentrating production in

<sup>1</sup> See p. 229.

national areas, regardless of the economic cost involved. When Peace came, there were in every country interests and industries which had grown up to serve War needs and which clamorously demanded protection against world competition—a typical example was the American overseas merchant shipping service. These War-industries blackmailed politicians by pointing out that if they were exposed to world competition they would collapse and thus add to unemployment.

Finally, there was the matter of Russia. Here was an insoluble piece of grit in the post-War gearing of the world economic system. Here was a state of no negligible economic importance which had abolished Capitalism and leapt at one stride into experiments with the 100 per cent. Socialistic state towards which the rest of the world, half-reluctantly, half-willingly, was painfully groping.

One may sum up by saying that the second industrial revolution was born and developed in a social framework which, though in theory based on Capitalism and private enterprise, was in fact at least half Socialistic. Almost wherever one looked just before, during and after the War one found restrictions and controls which would have profoundly shocked the man of 1850, who would have declared that the world had relapsed into the fallacies of the mercantilist philosophy of the seventeenth century.

These restrictions and controls were frequently of a contradictory nature, and this paradox was to become ever more startling as state intervention increased with the onslaught of the world crisis. It was to be a commonplace to find states subsidizing exports and at the same time raising tariffs and extending quotas; supporting uneconomic home industries and subsidizing shipping which was languishing because of the shortage of import cargoes.

The tremendous rate at which material changes have taken place during the last twenty years, changes which we have summed up in the phrase "The second industrial revolution," was hardly checked by the world crisis we shall soon describe. In some respects they were accelerated. The dislocation of world trade which, as we shall see,

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began in 1929, created conditions resembling those of war, and nations seeking self-sufficiency demanded of their scientists acceptable synthetic substitutes for natural raw materials. The defeatist attitude adopted in many quarters towards the inventive genius of man because of the inability of political organizations to adjust themselves to economic progress is illustrated by the following passage :

“In the present chaotic state of world trade new developments in the direction of substituting ubiquitous products for cultivated and imported material would scarcely be welcome . . . it may be argued that it would be advantageous to the world’s inhabitants if some scientist discovered a simple method of turning vegetable matter into an acceptable substitute for wool, but it would not be difficult to make an excellent case for the postponement of the invention until the world has struggled back to a less chaotic condition than exists at present.”<sup>1</sup>

In brief, save us from ourselves !

As we have seen in Chapter I, Great Britain, when politically dominant in the world, took control of Western Civilization during the nineteenth century and moulded it into certain shapes. How far was it to prove possible for her to maintain her predominance during and after the revolutionary changes which succeeded the War ?

The British are the mysterious children of lofty destinies and their fortunes are bound to the chariot wheels of the vehicle of world leadership. When the War was over their fates drove the British forward, and unconscious as ever of what they were doing, or trying to do—except that they deemed themselves to be acting in accordance with the dictates of commonsense—the British doggedly set about putting the world to rights by empirical methods.

The British have many admirable qualities, one of which—in the practical everyday world—is a certain lack of imagination. This is why they are so brave. But this quality can sometimes operate with all the disadvantages of a defect, and it is extremely important to an understanding

<sup>1</sup> From a leading article in *The Times Trade and Engineering Supplement*, July 21st, 1934.

of the events of our own times to realize that British economic policy during the post-War decade of 1919-29 was remarkably unimaginative. It did not occur to the British that the mere incident of a World War could have unloosed psychological, spiritual, metaphysical (I seek in vain for the right word) forces and ideas which doubted the all-embracing validity of the dictum that "Trade maketh Man."<sup>1</sup> It may be that the times to come will prove the British to have been right in their dogged insistence that the specialization of labour and the maximum degree of free exchange of products in accordance with the dictates of the price in the open market is the natural and most beneficial economic activity of man. It may be; but those times will be long in coming. In any case the British failed to appreciate after the War that the second industrial revolution, whose nature has been sketched in this Chapter, was a phenomenon which sensibly diminished the penalties for breaking so-called "natural economic laws." An intraverted attitude towards international trade in the twentieth century might lead to loss of wealth. It did not lead to death. The British did not realize after the War that they were living in a world which, from an economic point of view, was in a state of flux. It was unbalanced and unstable . . . it was perhaps a shapeless thing in process of changing from something which had been free into something which would be planned and controlled. Oblivious of these facts and without suspicion that the Great War, by hastening on various developments of which there had been premonitory signs in the late nineteenth century, might, and probably had, brought humanity to a genuine turning point in history, the British decided to reconstruct an international economic system which should be pre-War in its *essential features*, though it would, of course, differ therefrom in matters of detail.

We shall now proceed to tell the story of that endeavour; the story of the efforts of Great Britain to stage a "come back" both in finance and commerce.

<sup>1</sup> See p. 18.

## CHAPTER XV

### BRITISH FINANCIAL POLICY

"Another difficulty besetting our task has been due to the complexity, not to say mystery, in which the problems of finance are involved. Every citizen is dimly aware that in some way his daily business is affected by the operation of the monetary system, but he is quite unable to appreciate how it is so affected."

*Report of Committee on Finance and Industry, Cmd. 3897, 1931, p. 2.*

#### 1. *Two Battles*

WHILST the War was still being fought there were civil servants in Whitehall giving thought to the problems of a peace which must sooner or later be the fruit of victory. Nothing had yet occurred to cause those in control of British policy to doubt the fundamental truth and practical expediency of the political and economic principles which had been at the source of the prosperity of Great Britain during the nineteenth century. The defeat of Germany was a necessary preliminary to a resumption of the processes of extending and improving that British world civilization whose genesis and characteristics were sketched in Chapter I of this volume. We have hinted in Chapter V ("The Infernal Triangle") that the desire of the British Government to return as soon as possible to "Business as usual" was a major cause of Franco-British disagreements, and now we must see in greater detail what were the obstacles confronting the British, and how they endeavoured to surmount them and thus regain the pre-War economic leadership of Great Britain.

When in 1925-26 it seemed that the foundations of political peace in Europe had at last been planned upon the basis of co-operation between national states within the framework of the League system of collective security, and that the Washington Conference treaties had prevented the development of a dangerous situation in the Pacific

and Far East, there was a general feeling that the international economic situation was in need of immediate attention. A political peace in which industry and commerce languished was but half a peace. So whilst an attempt was made to build up a structure of organized peace,<sup>1</sup> steps were also taken to tackle international economic problems.

Materially, the initiative lay with the U.S.A., for she was the greatest creditor in the world, and disposed of enormous potential economic wealth. But she lacked the necessary tradition and experience required by any would-be leader of world economic policy. Moreover, she lacked the will to lead the world. Her economic outlook was national by preference and only outward (except in Latin America) by the sheer necessity of employing her vast surplus of credit and by the unpleasant fact that she was tied economically to Europe by the War debts question.<sup>2</sup>

Morally, the initiative lay with Great Britain. She had the traditions and experience of a century of economic leadership. She had the will to lead the world and her economic outlook was international owing to the necessity of finding markets for her exports, cargoes for her shipping, and maintaining freer trade so that her debtors could pay the interest on the loans which Great Britain had supplied to borrowers all over the world.

In the case of the U.S.A., though the flesh was there, the spirit was weak; in the case of Great Britain, a war-weakened veteran was inspired by a spirit which refused to contemplate a refusal by the world to see the obvious material advantages of rapidly restoring a world economic system.

It is one of the major tragedies of our own times that the course of events did not permit of close co-operation in the economic sphere between American flesh and British spirit during the years 1926 to 1929. Such a combination might well have saved the world from its economic crisis.

<sup>1</sup> See Chapter XIII, Vol. I.

<sup>2</sup> For an account of the part played by the U.S.A. in the economic history of the post-war decade see Chapter XVII.

As we shall see, Great Britain, having successfully cleared up the domestic mess of a general strike—in itself a consequence of her return to the gold standard at pre-War parity—attempted more or less single-handedly to lead the world back to economic unity. (But we are running too far ahead in our story.

The peace which ended the War having been signed, the question arose, what was to be the great design and pattern of the post-War economic system? (We suggested at the end of the last chapter that) to Englishmen such a question could admit of but one answer. It could only be a system which *in principle* resembled the pre-War system. It could only be a system which was based on the teachings of Adam Smith, though since 1921 was clearly not 1900, 1888, or 1850, it was to be expected that in detail there would be substantial differences between the post-War world economic system and its pre-War prototype.

To the English mind the widespread extension and powers of economic nationalism were essentially products of the vast war-time intervention of the state into economic affairs, and therefore a determined attack on this convolvulus-like growth was an essential preliminary to a restoration of commercial freedom and prosperity.

During the post-War decade Great Britain advanced to the attack upon two fronts; there were two wings to the British assault upon the ramparts of economic nationalism. The G.H.Q. of one attack was the Treasury and the Bank of England; that of the other was the Board of Trade. The first army was officered by the men from the City, the bankers and the financiers; the second was led by the captains of industry. In both cases the working men and women of Great Britain were the storm troops. During the Great War when a division of troops was to be used in an attack it was withdrawn from the line and put into a quiet area in order to be "fattened for the attack," as the saying went. A similar policy of preparation was necessary in order to fit the working-class army of Great Britain for the assault. But the methods were different. Instead of being fattened they had to be "slimmed" by a prolonged

deflation whose purpose was to reduce costs and wages and so make British goods competitive in the world market and raise the exchange value of the £1. The working classes may be visualized as advancing under cover of a prolonged and severe deflation, and the unemployment figures were the casualties.

The first British economic army, that of Finance, had as its objective the restoration of financial unity which was to be brought about by the establishment of stable foreign exchanges on the basis of some form of gold standard.<sup>1</sup>

The second B.E.A. was the Trade Army, and its objective was to bring about free, or at any rate freer, trade by the lowering of tariffs, the abolition of subsidies and other artificial restrictions and stimuli which either clogged up the free working of the economic system or else unnaturally stimulated one part of it at the expense of another.

The two offensives were conducted simultaneously and were interdependent, but provided this fact be borne in mind, it will be convenient to deal first with the fortunes of the Battle of Finance and then consider the Battle of Trade. In order to appreciate the nature of the task which faced the Treasury and the Bank of England, it is necessary to describe the international financial situation as it appeared when it emerged from the rough and tumble of the War.

## *2. Legacy of War*

As soon as the Peace Treaty was signed consideration was given to the problem of making a start with the tremendous task of restoring a world financial system without which any attempt to revive international trade was a waste of time. At its session in February 1920, the Council of the League<sup>2</sup> resolved that the League should convene an International Conference at the earliest possible date in order "to study the financial crisis and to look for the means of remedying it and of mitigating the dangerous consequences arising from it."

<sup>1</sup> See Appendix II, Note on the gold standard.

<sup>2</sup> This was the second session of the Council.

## British Financial Policy

At that time the question of the total amount of German reparations payments was still completely unknown, and the International Conference was postponed in the hope that the Spa Conference (July 1920) would throw light on this darkness. The hope was vain, and the International Financial Conference met at Brussels in September-October 1920. It was attended by 39 states (27 members of the League, 8 ex-neutrals, 4 ex-enemies, and the U.S.A.). Its report contained a "review of the situation" and a number of unanimous recommendations. The delegates to the Conference, "while appointed by their governments, attended as experts and not as spokesmen of official policy."

The problem before the world was clearly summarized in "the review of the situation" in words which cannot be bettered. Here are printed some extracts from this document which is now deep buried and forgotten beneath a heap of "experts' reports," notable alike for their common-sense and for the little influence they have exerted upon responsible statesmen or public opinion.

"Some of the financial ills from which the world is suffering are common to all nations; but the severity of the malady and the effects which it has produced on the body politic have varied immensely in proportion to the degree in which each nation has been immersed in the maelstrom of the War. . . . Certain of the belligerent countries of Europe,<sup>1</sup> unable to cover the expenses of the War from their national current revenue, find their balance-sheet burdened with an enormous volume of both internal and external debt, the amount of the latter being still undetermined in the case of Germany. The total external debt of the European belligerents converted into dollars at par amounts to about 155 milliard dollars, compared with about 17 milliard dollars in 1913 which, even when full allowance is made for the depreciation of money, represents a tremendous burden in proportion to the total national

<sup>1</sup> Belgium, Bulgaria, France, Germany, Great Britain, Greece, Italy and Portugal.

income of the belligerent countries. The external debt, amounting to about 11 milliard dollars due to the United States and to 17.5 milliard pounds sterling due to Great Britain, presents an even more difficult financial problem because in nearly every case it is payable in a currency which is less depreciated than that of the country concerned.

“The government expenditure of these belligerent countries has increased in proportions which vary between 500 and 1500 per cent., the present figure having been estimated at between 20 per cent. and 40 per cent. of the national income. The highest percentage is that of France who includes in her budget a very large sum for the restoration of her devastated provinces. . . . Except in the case of Great Britain there is still a very large gap between the total income and expenditure.

“These countries together have lost a very large proportion of their pre-War holdings of gold and have enormously increased their paper currencies. This process of inflation, which has been reduced by Great Britain and checked by France, still continues in other countries. Except in the case of Germany and her Allies the countries occupied during the War had an enormous excess of imports over exports.

“During the War the exchanges of these countries did not reflect their real economic position, as artificial measures were in most cases taken to stabilize them; but the exchanges rapidly deteriorated when these measures were given up in 1919. This depreciation continued for twelve months.

“As a result of the War a number of new states have been created, while certain existing States, some of which were belligerents, have had their territories profoundly modified. Among these are Armenia, Austria, Czechoslovakia, Esthonia, Finland, Hungary, Latvia, Lithuania, Poland, Rumania and Serbia. For none of these countries, except Finland, is there a definite basis of comparison. All of them have received as a legacy of the War extremely depreciated currencies. In most cases the machinery of

an orderly state revenue system is not yet in operation, and with enormous expenditure upon food relief, armaments, and in some cases actual war, there is no sign yet of any possibility of a budget equilibrium. In many of these countries the printing-press is still in operation.

“In the countries of Europe which were neutral during the War, including Denmark, Holland, Luxemburg, Norway, Spain, Sweden and Switzerland, the position is essentially different; but the financial difficulties are also serious. In some cases heavy expenditure was incurred by these countries directly in consequence of the War, and they have had largely to increase their internal debt. But in most cases the budget difficulties are due to the growth of Government expenditure caused by the rise of prices and the provision of subsidies to prevent this rise pressing too heavily on the general population. This expenditure has in some cases been met by increased taxation, but in the case of Holland, Switzerland and Spain there are considerable deficits, and in the two latter cases no equilibrium is yet in sight. The trade position of these countries also presents peculiar difficulties. During the War their trade balances were very favourable owing to the demand for their products from belligerent nations and the stoppage of their imports. The result was an accumulation of gold which led to an expansion of currency and a rise of prices almost as serious as that which for entirely different reasons took place in the belligerent countries. Since the War the trade situation has been reversed, as these countries have been importing the goods required to replenish stocks and, owing in part to the premium to which their exchanges have risen, as compared with the depreciated currencies of the belligerent nations, the maintenance of their exports has become difficult. To some extent, therefore, the favourable factors in the situation of these countries are actually an embarrassment.

“The countries outside Europe have on the whole the most favourable economic position. Though special conditions affect certain of them—especially China—in

general it may be said that they have benefited by the ready disposal of their products to the nations of Europe. Their trade balances have been very favourable and their exchanges have improved relatively to those of European countries. They have in many cases been able to pay off a large proportion of their external debts and, on the other hand, have made large loans to their former creditors. This is particularly the case with the United States, to whom most of the countries of Europe are now heavily indebted. But, as in the case of European neutrals, their accumulation of gold has led to a rise in prices, and has rendered more difficult the maintenance of their exports. Their future economic position, therefore, is vitally dependent on the restoration of the purchasing-power of their European customers. It must also be kept in view that many of these countries, especially in the New Hemisphere, have immense unfulfilled demands for capital expenditure, and the world-wide shortage of capital at the present time constitutes a serious handicap to their development.

“It is noteworthy, however, that different as are the conditions in these different groups of countries, certain features are common to practically every country of the world as a consequence of the destruction and dislocation of the War. In every country the purchasing-power of the national currency has diminished, and the cost of living in terms of that currency has increased. With few exceptions, neutral as well as belligerent countries suspended the gold basis of their currency. Even where the gold basis has been retained the purchasing value of the currency has declined, for the value of gold itself in terms of commodities has diminished to about one-half. In every country international trade has been impeded, dislocated and diverted from its normal channels. The inability of Europe to export during the War forced the normal purchasers of her goods to look elsewhere for their requirements, to develop production in unaccustomed channels at home or in other countries overseas. Simultaneously, Europe's need for imports compelled her

to sell a large part of her capital holdings abroad, which are not therefore now available for her present needs. The instability and depreciation of exchanges resulting from these and other causes have impeded the trade of both seller and buyer. Countries with unfavourable exchanges have found it difficult to buy raw materials, and those with favourable exchanges have found in them an obstacle to the sale of their exports. With half the world producing less than it consumes and having insufficient exports to pay for its imports, credits alone can bridge the gulf between seller and buyer, and credits are rendered difficult by the very causes which make them necessary. Finally, every country finds impediments to its international trade in the new economic barriers which have been imposed during and since the War."

Such in outline was the state of financial disorganization for whose alleviation the delegates to the Brussels Conference recommended certain lines of action. Their proposals may be summarized as follows :

- (a) Public finance must be re-established on a sound basis.  
States could not afford to continue to spend on an average of 20 per cent. of their national expenditure upon armaments.
  - (b) Each country should aim at the progressive restoration of that freedom of commerce which prevailed before the War.
  - (c) Taxation sufficient to raise a revenue equal to current expenditure must be imposed.
  - (d) Inflation must cease.
  - (e) It is highly desirable that the countries which have lapsed from an effective gold standard should return thereto.
  - (f) Exchange restrictions "are futile and mischievous."
  - (g) An international credit system should be established.
- . . . . .

It was a clear victory—on paper—for the British thesis. The opposition had not yet organized itself—but note the

significant fact that the experts did *not* represent their governments, and all economic questions between the Allies and Germany were expressly excluded from the agenda of this Conference. Ominous portents for the supporters of international economic co-operation. The political difficulties in Europe which have already been described in Chapter V and particularly the delay in settling the Reparations and War Debts question, prevented the resolutions of the Brussels Conference from having many immediate practical consequences, but the forces (mostly British) favouring international stability and co-operation were ceaselessly at work <sup>1</sup> in an endeavour to clear away the various economic and political legacies left by the War which were hindering return to the normality of 1913.

It should be recorded here that the Cannes Conference of 1922 reached important economic conclusions, to which no attention was paid at the time, bearing upon the need of close co-operation between the Central Banks and the development of the "gold exchange standard." This device aimed at permitting the use by Central Banks as part of their "gold reserves" of devisen convertible into gold. For instance, a U.S.A. government gold bond was to be considered as being the equivalent of its value in gold, and as such eligible as a reserve for the backing of paper money. The "gold exchange standard" notion, much criticized in after years when the post-War financial system collapsed was really a very sensible and progressive device provided the nations were willing to co-operate. It economized in the use of gold bullion since an ounce of gold in the U.S.A. (for example) not only supported a structure of credit in that country but part of that structure of credit was transported to, say, the vaults of the Central Bank of Rumania where it supported a section of Rumanian domestic credit. It also had the advantage of linking the national monetary systems, but the disadvantage of forging

<sup>1</sup> For example, see Chapter V for some account of British efforts to settle reparations. Also Great Britain was the first to settle her War debt with the U.S.A.

an additional link which had to be painfully broken when and if for political reasons the nations determined to walk alone in economic and financial matters.

But we must return to our survey of the attempts to restore the world's financial machine during the years which succeeded the Peace Treaty, efforts which were centred round the great objectives of first stabilizing the fluctuating national currencies and then relating them to each other by linking each to the gold standard. To be permanently successful it was essential that each national currency should be revalued in gold at a figure which reflected the level of prices inside that country relative to world prices. A state which revalued its currency in gold at too high a figure would find its export prices uncompetitive in the world market, whilst if the opposite mistake were made, it would become a "dumper" and have to pay too high a price for its imports. In either case the effect would be to introduce an element of instability into the world system and thus give excuses for national tariffs and restrictions.

In 1923 the Austrian crown was fixed in terms of the dollar, thanks to an admirable reconstruction scheme sponsored by the League<sup>1</sup> when the desperate state of Austrian finance had caused the Allied Powers to abandon her problems in despair. The German mark was at this time plunging precipitately to destruction. In 1919 the mark was valued internationally at about 40 to the \$. The German price-level was between two to three times that of 1913; her internal debt amounted to approximately £2400 million.<sup>2</sup> By the end of 1921, by which time Germany had been refused relief from the reparation terms laid down at the London Conference in March 1921, terms by which the Allies demanded 1000 million gold marks by September 1921, the mark fell to 60 to the dollar (the pre-War parity had been 4.2 marks = \$1). In 1922 the mark fell to 9000 to the dollar. In January 1923, when the French entered the Ruhr in order to bring Germany to her knees, the

<sup>1</sup> See p. 191.

<sup>2</sup> The German Government had financed 94 per cent. of the cost of the War by borrowing.

mark was quoted at 49,000 to the dollar. By July 1923 the quotation was over 1,000,000 marks to the dollar and the mark had virtually become useless as a medium of exchange. In October, with the abandonment by the Stresemann Government of the campaign of passive resistance in the Ruhr a new currency was introduced. It was a gold currency called the Renten-mark, secured on a 5 per cent. mortgage charge on the total fixed capital of the German Reich. With the advent of the Dawes Scheme for lifting reparations out of politics and putting them into economics and, thanks in large measure to the energy of Dr. Schacht, the exchange was pegged at 4,200,000 marks to the dollar and since the Renten-mark was worth 4.2 dollars, the old mark was fixed at 1000 million to the Renten-mark. In November 1924 the Dawes loan of £40,000,000 enabled a Reichsmark to be put into circulation on a gold basis, and Germany was thenceforward on the gold standard. The stability of the Swiss, Swedish, Polish, Finnish, Danish, Hungarian, Belgian and Czechoslovakian currencies improved during 1924. In the case of the last three countries they were assisted by international loans. France, with a budget still unbalanced except for problematical reparations receipts, suffered currency depreciation and the rate fell below 100 to the £1 (pre-War parity, 25 francs = £1).

On April 28th, 1925, Mr. Winston Churchill, when introducing his budget in the House of Commons, made a pronouncement of world-wide importance when he announced that His Majesty's Government had decided to return to the gold standard at the pre-War gold content of the £1.

At this time the £1 was standing at practically its pre-War value relative to dollars, but the strength of sterling did not truly reflect its purchasing-power in the world's markets. Sterling was over-valued because foreigners had bought it believing that the British Government would do what in fact they did do—return to gold at the pre-War parity. The following extract from *Monetary Policy and the Depression*,<sup>1</sup> a Chatham House Study Group Report written

<sup>1</sup> Published by the Oxford University Press.

in 1933, explains what was involved in the British decision to stabilize on gold at the pre-War value.

“The decision to restore the gold standard at the old parity in 1925 was taken at a time when the low figure at which France and Belgium were to stabilize could not have been foreseen, and when rectitude and orthodoxy alike seemed to call for a restoration at the pre-War parity. But this restoration added to the difficulties which our export industries—already in an unhappy position owing to developments during and just after the War—had to face. ‘Great Britain established a gold parity which meant that her existing level of sterling incomes and costs was relatively too high in terms of gold, so that, failing a downward adjustment, those of her industries which are subject to foreign competition were put at an artificial disadvantage.’<sup>1</sup> Such a ‘downward adjustment’ would inevitably have been difficult to bring about, and in any case many of its implications can hardly have been thought out in full at the time. Wages tend to be more rigid than prices, and even if the force of circumstances could have secured a reduction of wages in the export industries themselves, wages and salaries in those industries and services unaffected by outside competition (such as transport or building) were in a more sheltered position and much better able to resist change.

“The wage question was only a part of a much wider problem. A reduction of costs required not only a reduction of wage-bills but also a reduction in the weight of past obligations incurred by Government and by industry as a whole. It may be that a capital levy or a general scaling down of debts accompanied by a determined drive on wages would in due course have achieved the desired ‘downward adjustment,’ but in fact those responsible for policy do not seem to have formulated the problem in these terms. The disadvantages of such

<sup>1</sup> *Report of the Committee on Finance and Industry, 1931* (Command 3897), pp. 106, 245.

an extreme line of action are many, and not the least of them is that the position of a creditor country (as we were in 1925 and as we still are) is much weakened *vis-à-vis* her debtors if her own Government is forced to take steps involving partial default in its obligations.

"Given that sweeping methods of this sort to reduce past obligations were ruled out, the only other way in which their weight could have been lessened would have been by a fall in the rate of interest. The restoration of the old parity effectively put this out of court. To maintain the exchange position, it was necessary to keep Bank Rate and short-term money rates in London at a higher level than in New York, and this tended to prevent the lightening of the burden of fixed interest liabilities. Bank Rate was below  $4\frac{1}{2}$  per cent. for only two months between 1925 and 1929. A difficulty created by this was that short-term money was attracted to London, thus disguising the weakness of Britain's position. Gradually the United Kingdom was drifting into borrowing short and lending long, and so putting herself into a position in which she was no longer mistress of her financial destiny, but depended to an increasing degree upon the willingness of short-term borrowers to renew their loans as they fell due for repayment."

The return by Great Britain to the pre-War gold standard<sup>1</sup> at the pre-War gold value of the £1 was perhaps the most momentous single financial decision in the period between the end of the War and 1931. Its consequences were to prove other than were hoped for in 1925, but it is easy to be wise after the event, and it is perhaps fair to say that the British Government took a chance both in the interests of Great Britain and the world in the hope that by taking certain risks they would definitely consolidate the general improvement in the international monetary situation which had been taking place since 1923. The return of Great Britain to gold was a great attempt to

<sup>1</sup> Modified in technical details, *e.g.* the bank was only obliged to sell gold in bars. In pre-War years it had to exchange notes for gold coin. (See Appendix II, Vol. I.)

pin down and fix the financial side of international economic relations into something resembling the 1913 framework.

There remains to be discussed the position of France.

This country was no exception to the general case of War inflation, the budget deficit of the War years amounting to a figure of approximately £5½ thousand million. After the War the practice of budgeting for a deficit was continued in France, although the deficit was theoretically balanced by taking into account expected reparation payments, and when the Herriot Socialist Government came into power in 1924, its policy, coupled with a further increase of Government borrowing, caused a flight from the franc. Some of this money came to London and was one of the causes of the strength of sterling in 1925. The note circulation in France rose to over 57 thousand million francs (before the War the limit had been 6¾ thousand million francs) and the franc fell to 245 to the £1. The prospect of France following Germany down to the bottom of the slope of inflation seemed about to be realized when in August 1926 Herriot's left-wing coalition was defeated and M. Poincaré came into power. He immediately inaugurated a series of energetic measures, including taxation, designed to balance the budget in order to save the franc. Capital at once began to return to France. By 1927 the franc was being officially maintained at a rate of 124 to the £1, and in June 1928 it was linked to gold at a value which made 124 francs = £1. This devaluation of the franc to one-fifth of its pre-War value undervalued it in relation to its purchasing-power, just as the restoration of the £1 to its pre-War gold value overvalued sterling in terms of commodities and services.

With the return of France to the gold standard—and the franc was stable by 1927, a year before it was officially linked to gold—it may be said that an international monetary system had been restored. It was in principle the same as that which had been operating in 1913, but it differed in the following respects. Firstly, gold coins had almost everywhere been withdrawn from circulation and most of the gold in each country was concentrated in the Central

Bank; secondly, as the international distribution of gold had for various reasons<sup>1</sup> been extremely uneven, large proportions of the total world supply being in the U.S.A. and France, some Central Banks found themselves with a supply of gold inadequate as cover for their note issue. To meet this difficulty, the device called the Gold Exchange Standard was being employed. As explained on p. 330, this arrangement enabled certain Central Banks to include in their reserve foreign obligations payable at sight in currencies exchangeable into gold.

By 1927-28, with the international exchanges stable and all national currencies of importance linked to gold, either directly or through the gold exchange standard system, it appeared that Great Britain had achieved her purpose on one of the two wings of battle for international economic co-operation which she had been waging since the end of the War. To all outward appearance a sound international monetary system had at last been re-established as the result of devaluations, deflations and endless discussions and manœuvrings for position. It was true that a critical examination of the foundations of this system revealed many disquieting features, such as the continuous strain on London;<sup>2</sup> the extraordinary geographical disposition of the world's stocks of monetary gold; the dangerous existence of masses of short-term money ready to move from centre to centre at the slightest political tremor, and, finally, the unwillingness of creditor nations to receive payment in goods. However, the great feat of hoisting the world back on to the gold standard had been achieved and great hopes were entertained that as a consequence of this achievement the other difficulties and dangers would gradually be overcome and disappear. These menaces to the maintenance of currency stability were in part financial, in part commercial.

The latter form the subject of the next chapter so must

<sup>1</sup> See pp. 189 *et seq.*, *Survey of International Affairs for 1931* for a discussion of those reasons.

<sup>2</sup> Due to costs in Great Britain being too high relative to the gold value of the £1. This meant, amongst other things, that interest rates in London had to be kept high.

be ignored for the moment. The financial difficulties were in many cases likely to be diminished if better co-operation could be established between National Central Banks.

### 3. *The B.I.S.*

These institutions lacked any central organization through which they could co-ordinate their national monetary policies, and yet those policies were clearly of immense international importance.<sup>1</sup> It so happened that in 1929 an opportunity occurred which was cleverly exploited by the British to bring about the creation of a Central Bank for Central Banks. At this time the reparation question which had been temporarily settled by the Dawes Plan<sup>2</sup> once more became troublesome, and it became necessary to prepare a new scheme.

During the whole period in which the Dawes Scheme operated, *i.e.* from 1924–29, Germany fulfilled her obligations punctually and completely. In fact, she had paid to the Allied representatives in Berlin, and they had successfully transferred from Germany, a sum of about £400 million.

Nevertheless the Dawes Plan suffered from several disadvantages. It did not fix the total of German liabilities; it included a foreign control over Germany's domestic economy which could not be kept in being indefinitely; and—although this was only recognized by experts—its terms had only been carried out by pumping foreign capital into Germany.

The movement for revision produced concrete results when in 1929 a Committee, known from the name of its American chairman as the Young Committee, was appointed with the tasks of:

- (a) Finally determining Germany's liability for reparations.
- (b) Abolishing the creditors' financial controls in Germany which had been set up by the Dawes Plan.

<sup>1</sup> The Geneva Conference of 1922 urged *inter alia* co-operation between Central Banks, but the failure of the Conference in its main business obscured its secondary recommendations.

<sup>2</sup> See p. 133.

- (c) Producing a plan whereby a portion of the German annuities to be fixed under (a) should be "mobilized" in the form of bonds saleable on the world market.

Detailed particulars of the size of the annuities Germany agreed to pay for the period 1929-87 need not concern us here, for the economic crisis was soon to make mince-meat of these arrangements. We are now concerned with the arrangement under (b) above. It must, however, be mentioned that in parallel with the financial negotiations which were taking place between debtor and creditors in the Young Committee and which reached a successful issue in the Young Report,<sup>1</sup> a political bargain was being struck whereby the Allies agreed finally to evacuate the occupied areas in the Rhineland and when the new reparation settlement came into force.

To return to the new arrangements for transferring the German payments. The committee of experts which drew up the report on which the new reparations scheme was to be based included as an integral part of their recommendations a proposal for a bank—to be known as the Bank for International Settlements. Its ostensible purpose was to be a clearing-house for international payments under reparations,<sup>2</sup> and to act as a trustee for the creditor countries in the application to Germany of the Young Plan. But the experts—and here the hand of the British representatives was visible—also recommended that it should be authorized to supplement "with additional facilities the existing machinery for carrying on international settlements, and, within the limitations of the sound use of credit, to contribute to the stability of international finance and the growth of world trade."<sup>3</sup> It was to be permitted to deal with national Central Banks and to accept their deposits, and (subject to the approval of each Central Bank) it could carry out certain banking operations in each country. It was not, however, to obtain control of any business in any

<sup>1</sup> For particulars of this report see *Survey of International Affairs*, 1929, pp. 141 *et seq.*

<sup>2</sup> See Young Report, Annex I.

<sup>3</sup> Young Report, p. 11.

country or compete directly with national banking institutions. Its reserves were to consist of 40 per cent. gold or gold exchange against deposits payable on demand, and 25 per cent. against time deposits of over fifteen days. Its share capital was to be \$100 million, guaranteed by the Central Banks of the seven nations represented on the Young Committee. The Board of Directors was to be (a) the Governors of the Central Banks of Great Britain, France, Germany, Italy, Japan, Belgium and the U.S.A.; (b) a representative of finance and industry from each of these countries. (c) Nine additional directors representing other Central Banks co-operating in the scheme. No Central Bank could be a member of the scheme unless its currency was on the gold or gold exchange standard.

The proposal for the Bank met with a great deal of opposition from the economic-nationalists who strongly objected to the creation of an instrument whose reparation duties, although ostensibly its main business, were bound in the long-run to disappear altogether, leaving the B.I.S. the directing international organ of world finance. Logically the B.I.S. should have been part of the League machinery (it should, in fact, have been set up in 1919) but the Central Bankers, traditionally opposed to political control over banking, would have none of this, and so the B.I.S. was made independent of the League.<sup>1</sup> A dispute took place over the question as to the headquarters of the Bank. The claims of London and Paris cancelled out; Brussels was "psychologically" too near to Paris! Amsterdam was ruled out because of Belgian-Dutch rivalries! It was actually proposed—such was the strength of nationalistic forces—that the administrative staff of the Bank should be dispersed amongst national branches of the International Bank!!! Eventually, this promising experiment in internationalism was tucked away at Basle. Its statutes, as finally approved, interpreted in a general way the recommendations of the Young Committee, but various modifications were made

<sup>1</sup> The British Labour Government endeavoured to place the B.I.S. within the League framework, but this endeavour was frustrated by opposition from the U.S.A.

to the original proposals, all such alterations being designed to restrict the scope of the wider international functions of the Bank.

Any disappointment felt by the British and the school of economic thought they represented as they contemplated the poor thing the B.I.S. had become, compared with the great organ of international financial control it might have been, was probably tempered by the reflection that this promising innovation had not been completely strangled at birth, that no institution can expect to be far in advance of the public it serves, that the Central Bankers of the world are the very arch high-priests of conservatism and that, at any rate, it was satisfactory to feel that these gentlemen had for the first time in history become obliged to be members of an international club in whose smoking-room they could not avoid personal intercourse at least once a quarter. Had not the Bank of England started because of the difficulties of the government of the day in securing subscriptions to state loans required to finance war, and from this modest beginning, in response to the needs of a temporary problem, had not the Bank gradually become the dictator of the British domestic financial machine, and in pre-War years the unofficial director of the world's money affairs? The B.I.S. had also been started in order to deal with a transitory debt problem (reparation payments), but in the minds of some British<sup>1</sup> its ultimate destiny was gradually to assume control over the international financial system.

We have now completed our survey of the re-establishment of international finance and shown how, by 1928 at the latest, it appeared that the British<sup>2</sup> had achieved substantial results in the pursuit of their policy of stable

<sup>1</sup> And they were Bankers ! It may be worth noting that all British Bankers are not hide-bound nit-wits. It is even probable that as a body they are fairly intelligent. It is true that they do not include many Socialists, but, after all, the Clergy are not recruited from the ranks of the Atheists.

<sup>2</sup> This really means Mr. Montagu Norman and the Treasury officials, since Parliament in the mass was much too ignorant of the elements of financial matters to be able to understand what was afoot. This ignorance was exceeded—where excess was possible—in the mind of the average elector who could not have defined or described the gold standard if his life had depended on the task. It was a grim joke that his livelihood *did* depend upon "gold standard" questions !

exchanges of national currencies linked to gold. Not only was the world once more prostrate before the golden calf, but the B.I.S.—a very pure gold institute—had been created as a beginning of the co-ordination of national financial policies.

The re-establishment of stable international exchanges upon a gold standard basis was a great triumph for British financial policy. The British financial army had occupied the hostile position, but could it dig in sufficiently rapidly and deeply to maintain its gains and resist the inevitable counter-offensive? As we shall have occasion to record in later chapters, the international financial system which was restored by 1928, largely as a result of British sacrifices and efforts, was destined to collapse within three years.

It is, however, convenient and correct to insert here an account of some further developments in the story of reparations which belong, in a general way, to the story of the British attempt to tidy up the international financial system and, in particular, were the last pre-crisis reparation arrangements.

#### *4. The Hague Conferences*

After the Young Plan had been adopted on June 7th, 1929, by the principal countries concerned as the basis of a new attempt to settle the reparations question, it became necessary to summon an international conference to adopt, with such revisions as seemed desirable, the recommendations of the experts.

The first session of the Hague Conference—or, as it is usually termed—the First Hague Conference—opened on August 7th, 1929. It was attended by three Prime Ministers and the Foreign Ministers and Finance Ministers of Great Britain, France, Germany, Belgium, Italy and Japan. The leading figure of the British delegation was Mr. Snowden who, with the accession of the Labour Government to office in June 1929, had become Chancellor of the Exchequer. The enthusiasm with which Mr. Snowden's nationalistic attitude was greeted by all sections of opinion in Great

Britain surprised and shocked the ardent internationalists. The principal issue at stake at this Conference was that of the allocation of the German payments as between the various Allies. Under the Young Plan the British share of the unconditional payments were to be substantially reduced from the level to be paid under the Spa Agreements; no comparable sacrifice was asked of France and Italy. If allowance were made for the satisfaction in full of the claims of the Dominions, the British share of these payments was reduced from 23 per cent. of the total under the Spa Agreements to 17·5 per cent. Mr. Snowden, in a forcible speech at the beginning of the Conference, made it quite clear that, bearing in mind that Great Britain had agreed to accept from France £227 million in settlement of a War debt of £600 million, and from Italy a settlement of £78 million as compared with a debt of £560 million, and that whereas Great Britain had already paid the United States War debts to the tune of £200 million, she had not yet received any payments from France or Italy, Great Britain was not prepared to forego any of her share of German reparations in favour of the principal European Allies. The British position can be summarized in the words of a telegram received by Mr. Snowden from Mr. Ramsay MacDonald in which it was said: "Our action hitherto in promoting the settlement of Europe on a basis of goodwill is a proof that we wish this Conference to succeed . . . *but we have reached the limit of inequitable burden-bearing.*"

A period of acrimonious discussion ensued, but the solid backing given to Mr. Snowden by all shades of British opinion eventually produced a modification whereby the British share of unconditional payments was considerably increased, chiefly at the expense of Germany; German acquiescence was secured by modifications in her favour in the agreement to evacuate the occupied areas in the Rhineland.

The first session of the Hague Conference adjourned after the signing of the agreements as to allocation, on August 31st. Committees of experts were appointed to

investigate methods for applying the modified Young Plan in its details, and by the New Year their work was sufficiently advanced to allow of the summoning of the second session.

The Second Hague Conference opened on January 3rd, 1930, and was attended by the representatives of twenty countries. Its proceedings were free from the acrimony of the First Conference, and it resulted in the signature of fourteen agreements. The principal subjects covered by these agreements were the constitution of the Bank of International Settlements; the sanctions to be applied in the event of wilful default; the reparations settlements with Austria, Hungary and Bulgaria and the "liberation" debts of the Succession States. The agreements were signed on January 20th, 1930, and were to come into force on May 17th, 1930. It appeared that considerable progress had been made towards "a general liquidation of the financial questions caused by the War and the subsequent Treaties of Peace."

We must now proceed to the other wing of the battle and see what fortune attended the struggle which was being led by the British for the freedom of international commerce without which the financial victory would be purposeless since money is but a means to any end and that end is the easy transference between individuals and groups of individuals of goods and services.

## CHAPTER XVI

### BRITISH COMMERCIAL POLICY

"What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage. . . .

"The case in which it may sometimes be a matter of deliberation how far it is proper to continue the free importation of certain foreign goods is, when some foreign nation restrains by high duties or prohibitions the importation of some of our manufactures into their country. Revenge in this case naturally dictates retaliation. . . . To judge whether such retaliations are likely (to be successful) does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal vulgarly called a statesman or politician. . . ."

ADAM SMITH, *The Wealth of Nations*, Book IV, Chapter II.

"Some men turn every quality or art into a means of making money : this they conceive to be the end, and to the promotion of this end all things must contribute."—ARISTOTLE, *Politics*.

#### I

THE purpose of this chapter is to describe British efforts to restore freer trade during the first decade after the War. We shall begin—as we did in the case of the chapter dealing with the financial struggle—with an indication of the magnitude of the problem.

Attention has already been drawn to the fact <sup>1</sup> that even before the War there was a growing tendency amongst the newly industrialized countries (e.g. Germany and U.S.A.) to allow "politics" to control "economics" and to resort to the weapons of economic nationalism, such as tariffs for protective, as distinct from revenue, purposes, dumping <sup>2</sup> and subsidies. During the life-and-death struggle

<sup>1</sup> See Chapter I.

<sup>2</sup> There is no satisfactory definition of dumping. It means anything to all men. To some people it means selling abroad at a price lower than that ruling in the home markets ; others call it "selling abroad below cost of production"—(whatever that means).

## British Commercial Policy

of the War, governments were forced to intervene in private economic life to an unprecedented degree.

When peace was signed there were reactions in all countries against the more extreme forms of government supervision, a tendency strongly marked in Great Britain, the traditional home of liberty. Nevertheless, the state retained in peace much of the interfering and regulating power which it had been allowed to seize in war.

In the international sphere, where there was no public authority which could be pressed to restore freedom of intercourse, and no public opinion to create an agitation, the removal of restrictions was very slow. In any case, the political situation in Europe up to 1925-26 was so tense that it approximated to war, and states felt the need of retaining control in these years of continuing emergency.

The economic and financial section of the League has endeavoured to construct a table showing a picture of the changes in tariff level between 1913 and 1925. Such a calculation can only be very approximate and, at the most, reveal a rough order of relative magnitude.<sup>1</sup> The result of this calculation is shown below :

### TARIFF LEVEL INDICES

	1913	1925		1913	1925
Austria	18	16	U.S.A.	44 <sup>2</sup>	37
Czechoslovakia	18	29	Belgium	9	15
Hungary	18	27	Holland	4	6
Italy	18	22	Denmark	14	10
Germany	13	20	Sweden	20	16
France	20	21	Switzerland	9	14
United Kingdom	0	5	Poland	—	32

That the increased tariffs were in existence five years after the conclusion of peace is to be accounted for by the desire to reserve the home market for home industries and so assist to give employment during a time when many

<sup>1</sup> For an explanation of the technical difficulties in the measurement of tariffs, see A. Loveday's *Britain and World Trade*, pp. 182 *et seq.*

<sup>2</sup> In 1914 only 25.

countries found themselves—or believed that they found themselves—so burdened by debt that imports must be checked and exports stimulated. These countries were usually restricting internal credit and so accentuating their unemployment problem. Another reason for tariffs was strategic; the desire to protect certain industries judged especially important in time of war. Subsidies (*e.g.* of shipping in the U.S.A. and elsewhere) sprouted in all directions. Finally, the Communist experiment in Russia where a whole nation was state-organized and all foreign trade was regulated in accordance with the social policy of the state, was a feature in the post-War commercial picture markedly unfavourable to a restoration of liberalism in commerce, since Russia was always liable to throw into the world markets at low prices large quantities of such commodities as wheat and oil.

## *2. Battle for Free Trade*

Such, in brief outline, was the nature of the protectionist entrenchments against which the forces of freer trade moved into action under the leadership of Great Britain during the post-War decade. The first shots were fired at Brussels in 1920 but, as we have noted, this conference was predominantly financial and only indirectly discussed trade.

With the improvement in the world's financial system, of which the turning point was Great Britain's return to the gold standard in 1925, one of the conditions necessary for the re-establishment of a freer-trade system was fulfilled, and the first steps towards Commercial Liberalism were taken at the Sixth Assembly of the League when the following resolution was passed on September 24th, 1925:

“The Assembly, convinced that economic peace will largely contribute to security among the nations; persuaded of the necessity of investigating the economic difficulties which stand in the way of general prosperity and of ascertaining the best means of overcoming these difficulties and of preventing disputes, invites the Council

to consider at the earliest possible moment the expediency of constituting on a wide basis a Preparatory Committee which . . . will prepare the work for an International Economic Conference."

The Council set up a preparatory committee of thirty-five persons drawn from 21 nationalities and composed of financiers, officials, merchants, industrialists, agriculturists, economists and representatives of workers and consumers. For over a year this Committee worked through sub-committees in collaboration with the technical organs of the League and government departments. It produced a unique collection of documents in which could be seen not only a complete picture of world economic conditions but also much of the detailed state of affairs in particular industries.<sup>1</sup> As an analysis nothing like it had ever been done before. If the solution of the problems had been tackled with the energy and goodwill devoted to their diagnosis, post-War history would be a different story.

The Conference opened at Geneva on May 4th, 1927, and was in many respects the most imposing international gathering brought together since the days of the peace-making in Paris. It was attended by 194 delegates from 50 states (including the non-League members of Soviet Russia, the U.S.A. and Turkey) and 500 experts. But it was ominously significant, from the point of view of the supporters of Liberalism in world commerce, that the 194 delegates were not official representatives. They were spokesmen chosen for their personal qualifications and they were not in a position to commit their governments. It was also decided that decisions should not be taken by voting, resolutions being passed unanimously where possible; where this was not possible the names of members in favour of a resolution were to be recorded. By 1927 most of the governments were taking the greatest care not to be committed to any relaxation of their economic nationalism.

<sup>1</sup> See *Guide to the Preparatory Documents of the Conference* (C.E. 1. 40).

The President of the Conference (M. Theunis) in his opening speech, said :

“The disruption of former economic markets, protective tariffs and other forms of protection, which have been established almost everywhere, and the instability of these tariffs themselves have still further complicated the situation. Nations have shown an increasing desire to become self-supporting while, at the same time, they have sought to create fresh trade outlets—two tendencies which obviously clash. . . .”<sup>1</sup>

Sir Walter (then Mr.) Layton, a British nominee, summed up the Free Trade and classical British position in the following words :

“The interdependence of the nations of Europe is so clear that their economic prosperity must rise and fall as a whole; individual nations—in spite of the appeal at times to the opposite—cannot hope in the long-run to remain prosperous through their neighbours’ misfortunes. Secondly, material well-being can only be achieved by economic production. Thirdly, Europe can only hope to keep abreast of industrial progress if her economic organization permits of specialization not merely between individual businesses but between nations. This means not only increased international exchange in its broadest sense but also an ever-increasing degree of economic interdependence, accompanied by much closer economic collaboration in many spheres than has existed in the past.”

The French were in a delicate position at the Conference since their government was actually raising its tariff whilst the gathering deliberated upon the need of lowering these and other barriers to trade. The Russians amused themselves by poking fun at the capitalist system *in extremis*. A number of resolutions, under the headings “Liberty of Trading,” “Customs Tariffs,” “Commercial Policy and Treaties,” “Industry—[Rationalization—Cartels—Industrial

<sup>1</sup> *Report and Proceedings of the World Economic Conference* (C.E. 1. 46).

Information],” “Agriculture,” emerged from the Conference. The most constructive included a statement to the effect that “the time has come to put an end to the increase in tariffs and to move in the opposite direction,” and that nations “should take steps forthwith to remove or diminish those tariff barriers that gravely hamper trade, starting with those which have been imposed to counteract the effects of disturbances arising out of the War. The Conference also expressed the hope that governments would so far as possible refrain from the use of subsidies and “reduce dumping to a minimum.”

These resolutions, which in their wider field were as economically orthodox seven years earlier as had been those at Brussels on finance, were duly reported to the Council of the League, which body considered “that the Conference has fully carried out its task of setting forth the principles and recommendations best fitted to contribute to an improvement of the economic situation of the world . . . and [the Council] commends this valuable report and these important recommendations to the favourable consideration of all governments.”

One result of the Conference was the creation of a League body of fifty-six members, called the Economic Consultative Committee,<sup>1</sup> whose duty it was “to follow the application of the Economic Conference recommendations.”

Before describing any results the Economic Consultative Committee were able to observe when they held their annual meetings in 1928 and 1929, it is interesting to note that in October 1927 a diplomatic conference, entitled “The Conference on Import and Export Prohibitions and Restrictions” was convened by the League of Nations. Thirty-three states attended, of whom Russia was not one. A convention was drawn up of which Articles 1 and 2 were the most important since they stated that (with certain exceptions) the signatories agreed to abolish all import and export prohibitions within six months of ratification of the convention.

An immense number of reservations were at once

<sup>1</sup> See *League of Nations Year Book*, 1932 Edition, p. 55.

attached to the convention by more than fifteen states, and in the end the necessary number of ratifications were never obtained, since by 1930, when discussion on ratification was *still proceeding*, the economic crisis was in full force.

In the light of the above information it will probably not surprise the reader to learn that states unwilling to abandon the practice of prohibition of imports and exports showed no burning desire to accede to that recommendation of the World Economic Conference which declared that the time had come to lower tariff barriers. It is true that the watchful and cumbersome Economic Consultative Committee at its first meeting in 1928 reported that "the effect of the Conference has already substantially checked the upward movement of tariffs, which was in full swing in May 1927." This hopeful discovery seems to have been based on the fact that certain states did not carry out threats they had made to increase tariffs, and that France and Germany had managed—after three years of negotiations—to conclude a commercial treaty. A year later (May 1929) the Committee made its second annual report and their optimism could rise to no greater heights than the statement that while "the check to the forces which are continually being exerted in every country in favour of greater protection has persisted there was, even in 1928, little sign of a move in the opposite direction."

In fact the battle for free trade was already lost. It is possible to argue that early in 1928 the issue hung in doubt, but the protectionist forces then began to receive reinforcements of an unexpected but decisive nature. The agricultural interests in Europe began to wake up to the fact that during the first five years of the post-War period the increases in tariffs which the World Economic Conference of 1927 deplored had been in the main for the protection of industrial producers. A similar statement was true of subsidies and other direct and indirect methods of protection.<sup>1</sup> Why should the farmer buy dear and sell cheap? Why should not the European home farmer be protected against

<sup>1</sup> *E.g.* post-War legislation for the protection of the British Coal Industry.

“dumped” agricultural produce from overseas and Russia. These ideas when held by peasant and agrarian political parties in continental countries, parties composed of persons of peculiar interest to general staffs as the raw material of conscript armies, cause Cabinet Ministers to be up and doing in the manufacture of agricultural tariffs.<sup>1</sup> By 1929 agricultural tariffs or analogous protective measures were in full vigour all over Central and Eastern Europe with the result that statesmen were then obliged to recognize that a tariff war was in full blast.

In 1846 Sir Robert Peel rose in the House of Commons to introduce his Free Trade Budget which abolished the Corn Laws; in 1929 Mr. William Graham, the Socialist President of the British Board of Trade, rose to his feet at Geneva to make a final appeal to the world on behalf of the principles of a commercial policy which had been almost part of the religion of his country for nearly ninety years.

In 1846 Great Britain had given to the world what it seemed to the British was particularly good for themselves and generally good for mankind, and the world had acquiesced; in 1929 Great Britain was almost in the position of a pleader, as alone amongst the Great Powers she begged the world to return towards the commercial liberalism it had deserted.

The occasion of Mr. Graham's speech was the tenth assembly of the League of Nations. He appealed to the assembled nations to arrange not to increase their tariffs for a definite period. The Assembly approved of the proposal. A sufficient number having replied favourably 26. 193  
C. P. M. “The Preliminary Conference on Concerted Economic Action” (Tariff Truce Conference) opened at Geneva on February 17th, 1930. Twenty-six European states were represented and four from beyond Europe (Colombia, Japan, Peru, Turkey). The U.S.A. and certain other states sent “observers.”

The Conference was doomed to failure. It was unrepresentative, and in its opening session attention was

<sup>1</sup> In due course (1933) this phenomenon became visible in Great Britain.

drawn to the difficulties of discussing tariff questions in a Conference at which the U.S.A. and most of Latin America were not officially represented. Whilst the Conference was being prepared tariffs were rising on all sides. The German Minister for Trade declared that within the past year fourteen European countries had raised their duties and seven more were preparing to do so. Many increases in tariffs had been put in hand as soon as the tariff truce conference was suggested with the obvious tactical purpose of increasing bargaining power at the Conference.

The British struggled hard to make the Conference produce results; they even accepted a French proposal which completely altered the principles of the original draft convention which lay before the gathering, and altered it greatly to the disadvantage of Great Britain—but it was in vain. They were fighting a losing battle and the world crisis, already by this time in full blast in the agricultural overseas countries—as evidenced by the falling price level—was gathering momentum almost week by week. In the general feeling of economic insecurity and doubt which was creeping like the shadow of an eclipse across the world, the forces of economic nationalism raised themselves ever more arrogantly. From May 1929 to June 1930 the United States Congress was at work conceiving the new tariff monster whose name was to be the unlovely combination of Hawley-Smoot. This outburst of protectionism was followed by new tariffs in Canada, Mexico, Cuba, France, Italy, Spain, Australia and New Zealand.

Technically, the after-birth of the Conference lay about the world in the form of a Commercial Convention until March 16th, 1931, when at a burial meeting at Geneva it was noted that only twelve countries had ratified even this emasculated and reservation-ridden document. Three days of discussion sufficed to reach agreement that it was impossible to agree as to a date upon which the convention should come into force. Freer Trade was dead in name as well as in fact.

There is an interesting parallel to be drawn between the

situation in 1914 and that in 1929-30. It has always been the contention of the French—and others on the Continent—that if in the critical days of July 1914 Great Britain had made clear that German aggression would involve a war with the British, then there would have been no war. It is possible that if in 1929-30 Great Britain had made clear to the world that the failure of her efforts to liberate trade would mean the establishment of protection in Great Britain—the great consuming market for approximately one-fifth of the world's export trade—then perhaps the economic nationalists would have thought once, twice and even thrice before they inflicted so signal a defeat upon the British policy. The comment proper to this speculation is that the British deal with problems as they arise and are not in favour of thinking out remote and hypothetical consequences of actions which are not related to the needs of the moment.

To sum up :

The decisive defeat in 1929 of the British policy for freer trade, a defeat which turned what had been a steady retreat into a rout, had two major consequences. First, by definitely indicating to the world that restrictions upon international commerce were not to be removed, but were more than likely to increase, it set in motion forces which brought about the collapse of the painfully rebuilt world financial structure. Secondly, it brought about a change in British commercial policy with consequences whose full effects are as yet (1934) impossible to foresee.<sup>1</sup> The practical results of the policy of restricting international commerce to which mankind was now definitely committed is shown by the following figures of value of world trade in gold dollars. These statistics<sup>2</sup> are compiled from 160 areas and can be taken as being as accurate as it is humanly possible to make them in view of the different systems of administration, valuation and definition which exist in various parts of the world.

<sup>1</sup> For some further comment on this point, see Vol. II.

<sup>2</sup> From *Review of World Trade 1932*, L. of N.

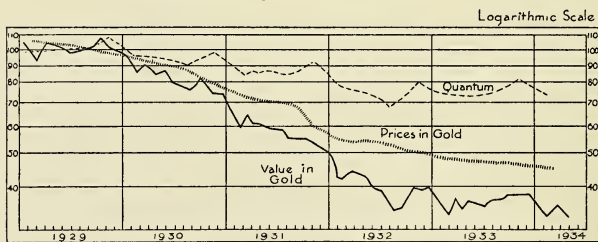
# WORLD TRADE

(Millions of Gold Dollars)

	Imports	Exports	Total
1929	35,606	33,035	68,641
1930	29,083	26,492	55,575
1931	20,847	18,922	39,769
1932	13,885	12,726	26,611

In considering these figures, which show a contraction of value between 1929 and 1932 of 61 per cent., the tremendous fall in prices which took place during that period must be borne in mind. Of twenty-five articles of importance in the world's export trade the price of sixteen fell by more than a half between 1929 and 1932, and this was not the full measure of the fall, since many of these articles had

## Movement of World Trade.



Reproduced from the *Monthly Bulletin of Statistics*.—June 1934.

begun to fall in price in 1928 whilst prices at the end of 1932 were lower than the average figure for 1932. The table on the opposite page <sup>1</sup> illustrates this price fall.

As regards volume of trade it has been calculated by the Economic and Financial Section of the League that the quantum of world trade decreased between 1929-32 by about 26 per cent.—27 per cent.—say one-quarter.

This matter can be fittingly concluded by the three curves shown above which reveal the consequences upon world trade of the restriction on commerce.

<sup>1</sup> From *Review of World Trade 1932*, L. of N., p. 9.

# British Commercial Policy

## PERCENTAGE CHANGE IN AVERAGE GOLD EXPORT PRICES FROM 1929 TO 1932

	1929-30	1930-31	1931-32	1929-32
1. Rubber (Brit. Malaya)	-42	-51	-45	-84
2. Wool (Argentine)	-46	-36	-20	-72
3. Raw Silk (Japan)	-30	-28	-37	-68
4. Copper (U.S.A.)	-25	-30	-33	-65
5. Coffee (Brazil)	-43	-29	-9 <sup>1</sup>	-64
6. Bacon (Denmark)	-15	-37	-33	-64
7. Maize (Argentine)	-40	-40	+ 1	-63
8. Cotton (U.S.A.)	-27	-38	-19	-63
9. Grey cotton tissues (Japan)	-13	-24	-44	-63
10. Silk tissues (France)	-9	-32	-37	-61
11. Butter (Denmark)	-18	-21	-35	-58
12. Tin (British Malaya)	-29	-27	-10	-53
13. Chilled Beef (Argentine)	-8	-25	-32	-53
14. Wheat (U.S.A.)	-19	-38	-4	-52
15. Sugar (Czechoslovakia)	-20	-25	-19	-51
16. Mechanical wood pulp (Finland)	+ 5	-11	-46	-50
17. White cotton piece goods (United Kingdom)	-11	-21	-26	-48
18. Petrol (U.S.A.)	-11	-37	-6	-47
19. Pig iron (United Kingdom)	+ 3	-16	-29	-38
20. Cement (Germany)	-1	-10	-28	-35
21. News-print paper (Canada)	-3	-10	-20	-30
22. Coal (United Kingdom) <sup>2</sup>	+ 3	-9	-23	-28
23. Steel girders (Belgium)	-1	-7	-11	-17
24. Passenger motor-cars (U.S.A.)	+ 0.3	-12	-6	-17
25. Mowing machines (Germany)	+ 1	-7	+ 2	-5

<sup>1</sup> As detailed trade returns for Brazil for 1932 were not available, the fall in the price of coffee from 1931 to 1932 has been calculated on the basis of the average *import* prices of the U.S.A. (which do not include transport costs from the exporting country).

<sup>2</sup> Coal exported from Poland, however, fell in price by 3 per cent. between 1929 and 1930, by 9 per cent. between 1930 and 1931, and by 16 per cent. between 1931 and 1932.

The signal defeat of the British campaign for the establishment of freer trade exercised a profound effect upon British public opinion. We have already noted the extraordinary ability of the British to adjust themselves to circumstances. They were now faced with the fact that the economic nationalists had pulled down the pillars of the world's commercial temple in which the British had officiated as high priests for close upon a century. The British were in a position analogous to that of a brewer in a community which has suddenly gone dry. The British brewer was not entirely defenceless: his late clients owed him great sums of money and he was the most experienced of "men of the world." It was clear that great readjustments were about to take place; it was also the British experience that it was unwise to do anything precipitate. The commercial wing of the British army had failed to storm the tariff walls of the world and might have to dig in for a time on its home front whilst it planned some outflanking movements and built up some tariff parapets behind which it could prepare for a fresh offensive. What of finance? Was that wing of the army holding its gains? Was the gold standard still secure? We shall see in a succeeding chapter that the failure to secure freer trade had a fatal effect on the somewhat jerry-built post-War financial system. But we anticipate too much. We are writing now of events which took place during the fury of the world economic crisis. Before this crisis cast its dark shadow across the world there was—as we have mentioned in *Sailing Directions II*—a recovery from the damage done by the War to the economic prosperity of the world. Not only was damage repaired, but when international peace apparently dawned in 1925-26 there was a definite upward movement in economic activity. It was from this elevation that men fell into the Grand Canyon of the crisis, so before we explore its gloomy depths we must describe the highlands up which humanity was hopefully proceeding up to about the years 1928-29.

## CHAPTER XVII

### POST-WAR ECONOMIC RECOVERY

"But all was false and hollow ; though his tongue  
Dropp'd manna, and could make the worse appear  
The better reason, to perplex and dash  
Maturest Counsels." MILTON, *Paradise Lost*.

#### I. *Production and Trade*

IN the course of Chapters XV and XVI, we traced the story of the British attempt to restore an international economic system. It was suggested that this struggle was waged on two fronts, one financial and the other commercial. The momentary success of the British Financial Army, a fleeting triumph enjoyed by the financial authorities in London as they noted in 1928 that the currencies of the principal states of the world were once more linked *fixedly* to gold, brought Chapter XV to a close.

The next Chapter had to end upon a sombre note, for it concluded with the spectacle of the British Trade Army repulsed with heavy loss, and the tariff-mongers, like the daughters of the Philistines, openly rejoicing upon the house-tops as the national barriers to international trade multiplied with the rank and speedy profusion of a tropical jungle.

We might now proceed with an account of how the failure of British commercial policy reacted upon the hard-won financial gains and how, bereft of the support of its export trade, the Financial Army was obliged to retreat, or, as some would say, fly for its life away from the rigid austerities of the gold standard. But to do this would over-simplify a complicated subject. In order to understand the crisis of which the defeat of the British economic armies was both a cause and an effect—how much of each no man can confidently say—it is

necessary to set down an account of certain post-War developments in economic matters which were in the nature of a prelude to the great collapse. They can be seen in perspective as taking the form of a remarkable economic recovery which on closer investigation proves to be a whited sepulchre. It was a false recovery partly because the British were apparently achieving their purposes when in fact their victory was an illusion, and partly because of certain economic activities and inactivities of the U.S.A., of which more anon. Underlying the whole of this false recovery was the fatal assumption that the period 1925-26 had seen the beginnings of a real political peace between the sovereign states; a peace based upon a genuine acceptance of the doctrine of collective security.

During the first ten years of the post-War period most people believed that when and if the political and economic difficulties due to the War were mastered, all would be well. It was assumed that the underlying foundations of the great society of man were sound and that all the problems which vexed statesmen and bewildered the people were consequences of the escapade of the Great War. The diagnosis which made "The War" the scapegoat for the world's sins took no account of the existence of serious political and economic problems which were in a critical condition before the world went to war.

The wars, revolutions and economic crises which have distinguished *Our Own Times* have accelerated and aggravated the onslaught of disintegrating forces which in 1913 were mobilizing just below the horizon of time. The pre-War paradox of a number of sovereign states asserting their political independence in a world which was rapidly being transformed into an economic unit has been noticed in Chapter I. This paradox represented an attempt to compromise between the forces of competition and of co-operation which wrestle ceaselessly for the mastery of man's soul. According to historical precedent such a compromise must lead up to a crisis in which one of the two forces would temporarily prevail, and judging from previous experience the competitive force would be

the more likely to win the day. Then there would be a fresh period of crisis and confusion, followed by a further attempt at compromise which in its turn would work up into another crisis.

The crisis of the early nineteenth century, produced by the first industrial revolution and the Napoleonic Wars, had been succeeded by a century of struggle between national politics and world economic unity. It has been noted on pp. 24 and 28 that during the opening years of the twentieth century there were signs that world unity, which under British direction was based on the principles of *laissez-faire* and Free Trade, was being mastered and enslaved by its rival, political separatism.

By 1913 "private enterprise" in many a nation was a-whoring after its maid-servant, the state, and losing its vigour, its independence and its enterprise as it succumbed to the caresses of this all-embracing female.

In 1913 the world situation was unstable. Another great crisis was impending; great readjustments of social values were in the offing. Could this crisis be surmounted without the violence of war and revolution? That was the question so often asked in 1913. That we are now aware of the answer to that question does not alter the fact that, war or no war, the crisis, the reorganization of Western Civilization, was inescapable.

As during the opening years of the twentieth century the height of the crisis drew near, Western Civilization became ever more unstable; its temperature rose, its nerves became frayed and, as had so often happened before in history, men turned to violence as a method of readjusting their economic and political organizations and so making them fit to fulfil old purposes by new methods. Once more men provided themselves with an object lesson of the truth that war is a crude, unscientific and ineffective method of modifying the structure of society. It creates greater problems than it solves and the truth of this conclusion receives special emphasis when, as occurred in 1914, the society subjected to violence has become universal in its scope. When the world is in ruins there are no reserves from which to conjure

up the forces of recuperation. Fortunately, although the violence of the War agitated every community on earth, its destructive energies never fell directly upon the Americas and the Far East, so that Western Civilization, fortunately for itself, still had an industrial and financial base in North America. The excitements of the War and the concentration of men's efforts during four years upon the problems of destruction had concealed the existence of an imminent crisis in the peace-time system, and when the War ended, the world—apart from Europe—set about picking up the threads of normal life<sup>1</sup> in production and commerce which had been dropped in 1914.

The end of the War found the world in general, and Europe in particular, suffering from an acute shortage of many of the essentials of peace-time life. This state of affairs led to a sharp and short trade and production boom<sup>2</sup> which collapsed heavily in 1921 as soon as the immediate needs of Europe were satisfied. The world then began what appeared to be a steady movement of economic progress, a movement whose effects did not become apparent in Europe until after the 1925-26 period brought her political peace.

By 1928 this world-wide economic progress was being checked on some fronts, especially in the raw material producing, overseas countries; by 1929 the halt became general and the collapse assumed world-wide dimensions.

We shall examine this post-War economic recovery from several points of view. First, we will examine it in terms of trade and population. Table I (p. 361) shows the world production, 1925, as compared to that of 1913.

It is clear from the figures (Table I), which while making no claim to statistical exactness are, in the opinion of the economic experts of the League secretariat, sufficiently accurate to give an approximately correct picture, that by 1925 the world as a whole was better off than it had been in

<sup>1</sup> See p. 84 for a reference to the desire of the U.S.A. for normality.

<sup>2</sup> The shortage of consumers' goods in 1919-20 was one of the reasons why business men clamoured to be relieved of state control. Prices were rising precipitously. Morons could (and did) become millionaires. A cargo would double in value between the date of its shipment and its arrival.

## Post-War Economic Recovery

TABLE I<sup>1</sup>

	<i>Per cent.</i>
Increase in world population . . . . .	5
Increase in production of foodstuffs . . . . .	10
Increase in production of raw materials . . . . .	25
Increase in volume of world trade . . . . .	7

1913—the last normal pre-War year. There was more real wealth per head of world's population in 1925 than there had been in 1913.

The next Table (II) shows how, up to 1925, Europe had not enjoyed her share of this post-War recovery. In Table II an index number of 100 has been taken as representative of the state of affairs in 1913.

TABLE II<sup>2</sup>

### REGIONAL ESTIMATES OF WORLD TRADE AND PRODUCTION 1913 AND 1925 Index Number 1913=100

<i>Region</i>	<i>Population</i>	<i>Production</i>	<i>Volume of Trade</i>
Europe . . . . .	101	102	91
North America . . . . .	119	126	139
Rest of the World . . . . .	106	124	126
The World . . . . .	105	116	107

In Table II the poor showing of Europe is in marked contrast with the progress made in North America. It should be noticed that in population and production, Europe by 1925 had just regained her pre-War position. In volume of trade she was not yet there.

Table III (p. 362) tells a very different story. In this table the state of affairs in 1925 is taken as the base for a comparison with conditions in 1929.

. <sup>1</sup> *World Economic Survey*, 1931-32, p. 23.

<sup>2</sup> *Op. cit.*

TABLE III <sup>1</sup>

REGIONAL ESTIMATES OF WORLD TRADE AND  
PRODUCTION 1925 AND 1929

Index Number 1925=100

Region	Population	Foodstuffs	Raw Materials	Volume of Trade
The World . . .	104	105	120	119
<b>Europe . . .</b>	<b>105</b>	<b>110</b>	<b>131</b>	<b>122</b>
North America . .	106	99	114	119
Rest of the World	103	105	119	112

These figures show the impressive nature of Europe's comeback into the ring of world economic affairs.

The three tables printed above illustrate in a general manner the reality of the post-War economic recovery, and indeed more than recovery, for by 1929 the volume of production of wealth *per head* of the world's population had reached figures higher than any previously recorded.

Why should not this progress have been maintained? Man was not losing his skill or his desire to improve his material condition. World population was not advancing faster than was the production and rate of exchange of wealth; on the contrary, the reverse was the case in most of the important trading and producing countries. In order to answer that question we must inquire more closely into the nature of this post-War advance. We have yet to answer the question "How was it financed?", for if the financing was bad then perhaps *that* was the reason why the recovery was not maintained, the progress not continued.

## 2. International Credit

How and whence was derived the capital which nourished the world-wide activity reflected in those three tables?

It came from the pool of the international credit system. In the pre-War days this pool of capital was deepest and most fluid in London, and it was for the management of the sluice gates of credit that "The City" was so renowned. Its unrivalled knowledge of risks and markets in all parts

<sup>1</sup> *World Economic Survey*, 1931-32, p. 25.

of the world, its austere integrity, its technically well-organized and flexible money market, its absolute adherence to the gold standard, its great reserves, its ability to keep calm in time of crisis and to take the long view that to help others in emergencies was to help itself, were qualities which had acquired for the London money market a world-wide repute, and had caused it to be the headquarters of the world's financial machinery for the distribution of the products of industry and agriculture.<sup>1</sup> Though London was the Empress of Finance, Paris, Berlin and other capitals were grouped round her throne. London and her court were the capitals of the *creditor* nations of the world; that is to say the nations which exported capital and imported goods. The creditor nations always had a visible excess of imports over exports (a state of affairs usually referred to by the ignorant as the evil (*sic*) of an adverse balance of trade),<sup>2</sup> and they balanced their accounts by selling services (shipping, insurance, banking, entertaining tourists, etc.) and lending the use of capital to foreigners.

The War smashed up the international financial system, and when peace came, London which, true to its traditions of sound finance, had made a supreme effort to finance as much as possible of the British War effort out of current resources,<sup>3</sup> was still bleeding from the War wounds. When the pound, artificially pegged to the dollar during the War, was released in 1919 to find its own value in a welter of fluctuating national currencies, it depreciated in terms of gold, and for some years (until 1925) the dollar was the only true gold currency. Nevertheless, as we have seen in Chapter XV, by grimly forcing down her costs of production the £1 was raised to its pre-War gold value by 1925, and to outward appearance London was ready to resume her old position as Banker of the World. But in

<sup>1</sup> For an account of the credit system in Great Britain, see the Report of the Committee on Finance and Industry, 1931, Cmd. 3897, Part J.

<sup>2</sup> It is clear that so long as international trade is to be financed by loans the lending countries must be prepared to receive payment in the shape of goods, and that a world in which every nation "*enjoyed*" a "*favourable*" balance of visible trade can only exist in the imagination of tub-thumping politicians and the tadpole type of city editor.

<sup>3</sup> The British financed about 25 per cent. of their War expenditure by taxation.

reality her strength and capacity were not what they had been in 1913. In pre-War days much of Britain's financial strength had been derived from the fact that she enjoyed a very large annual income from her investments abroad. Much of this foreign investment had been sacrificed on the altar of war. Secondly, in pre-War days she had enjoyed a preponderating share of world commerce. Both the absolute and relative share of world trade enjoyed by Great Britain in the years before the War had declined considerably in the post-War period with a corresponding weakening of her financial position. So that though Great Britain "came back" into the post-War international credit system, she did so to some extent as a shadow of her former self. Her shoulders were as broad as ever, her courage was as high, but her frame was weaker and, as events were to show, it was slowly to sag, then suddenly collapse beneath a burden which became too great in 1931.

If London was incapable of fully resuming her pre-War international responsibilities were there others who could take up what she had laid down?

New York was the obvious centre towards which the financial noses of post-War borrowers began to sniff. All the material factors necessary to the creation of an international money market of the first order were at New York's disposal. The U.S.A. was the greatest creditor nation in the world, exceedingly prosperous, the dollar firmly anchored to gold. The world seemed to lie at its feet. But material factors are but part of the necessary equipment for the control of world affairs. The U.S.A. certainly made a vigorous attempt to seize the throne upon which Great Britain was trying to crawl back. But though the Americans lent vigorously, lavishly and indiscriminately, they also embarked upon a restrictive commercial policy, and raised sky-scraping tariff walls which excluded the products of their debtors and drew in gold of which the U.S.A. had already accumulated abundant stocks during the War. They also endeavoured to collect their War Debts.<sup>1</sup> We shall have to return to the sins of omission

<sup>1</sup> See p. 232 *et seq.*

and commission of New York in post-War monetary history when we deal with the collapse of the short-lived, post-War international finance system; for the moment let us leave the Americans, half proud, half anxious at finding themselves amongst the chiefest of the world's money-lenders, and turn to Paris.

From 1923 to 1927 the French franc was depreciating as a consequence of her hopelessly unbalanced budgetary position and the post-War struggle with Germany, which culminated in the enormously wasteful Ruhr occupation.<sup>1</sup> Whilst this was taking place there could be no question of France playing any considerable part in the international credit system. It is true that very large quantities of French capital fled abroad in fear lest the franc was to follow the dive into oblivion of the German mark, but this emigrating French money was not international investment in the normal sense. It was invested abroad—much of it in Great Britain—at short-term rates, and had to be held by the borrowers in a form which permitted of its rapid return to its owners. This event occurred when Poincaré stabilized the franc, by devaluing it to one-fifth of its pre-War gold value, and from that moment (1927–28) Paris was theoretically capable of taking her share of the business of international lending.

There was much talk of building up a capital market in Paris now that the financial jaws of the British lion (post-War brand) no longer seemed capable of masticating the same volume of international loan as had been the annual diet of his pre-War ancestor. But the project was easier to discuss than to realize. There were many technical difficulties, due to the antiquated state of the French money market and banking system, in creating the wished-for international capital market. For many years before the War the direction of French loans, *e.g.* those to Russia, had been governed by political rather than economic considerations, and this policy was continued in the period now under review. France also had a tariff policy and money market unsuited to a creditor country. France, like the U.S.A., did

<sup>1</sup> See p. 129.

her best to build up a part of the post-War international credit system, but the net result of the combined efforts of an experienced but weakened Great Britain, a strong but inexperienced U.S.A. and a nationalistic France, compared unfavourably with the pre-War system over which a strong and experienced Britain had ruled.

Mention must now be made of a peculiar, and as it turned out a very dangerous, characteristic of the post-War international financial system, and this was the extent to which the lending was for short periods of time (short-term money). What the borrowers needed were long-term loans, such as had been the foundations of the development of the overseas lands in pre-War times. The pre-War economic system, which it was Britain's ambition to restore, demanded as a condition of its successful operation a steady supply of long-term loans. But long-term loans repayable 20-30 years from the date of issue cannot be floated unless investors have confidence in the future. In the post-War decade the timid capitalist (and all intelligent capitalists are timid) saw fluctuating currencies, rising tariff walls, revolutions and rumours of wars, failure to disarm, Communist Russia, chaotic China, the Polish Corridor, Fascists and Socialists, as well as certain other portents of coming trouble which will not be mentioned here as they are to receive separate treatment. In short he saw a world in flux. These were not the conditions in which a prudent man would immobilize his resources for a period of years. This timidity amongst long-term investors had two important results. First, borrowers could only obtain money for short terms, and they were thus continually obliged to renew the debt, but always with the knowledge that they might be called upon to repay at short notice money which they had borrowed and immobilized in long-term capital developments. Second, a vast quantity of very mobile capital controlled by financial houses and institutions fled about the world whenever the fluctuations of the exchanges due to political causes alarmed its owners. Millions of dollars would hop into francs and from francs into sterling, and with each hop rock the stability

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of the exchanges. Some of these troublesome international flights of funds were no doubt due to the deliberate actions of speculators who operated in campaigns against weak currencies, but much, probably most of it, was due to the self-preserving instincts of capital in a world from which credit and confidence in the future were conspicuous by their absence; a world in which even the hoarder of gold begins to doubt his wisdom. "What shall my capital do to be saved?" was the question which agitated the man of property during the post-War years—a question which a number of governments answered by devaluing the currency and so translating much capital into the simplicity of nothingness.

With this outline of the post-War international credit system in mind we can now return to our question: "How and whence was derived the capital which nourished the world-wide economic activity during the first post-War decade?"

The table below, from *The Balance of Payments, 1931-1932*, published by the League of Nations, gives in millions of dollars the figures for exports and imports of capital of the principal countries.

# LENDING OPERATIONS

## EXPORTS OF CAPITAL (in millions of dollars)

(The plus sign indicates a net capital import. The minus sign indicates a net capital export.)

<i>Creditor Nations</i>	1923	1924	1925	1926	1927
U.S.A.	+104 <sup>1</sup>	-590	-642	-173	-518
U.K.	-700	-380	-261	+127 <sup>1</sup>	-385
France		(See footnote <sup>2</sup> )			-504
	1928	1929	1930	1931	1932
U.S.A.	-1126	-225	-295	+0-0	-547
U.K.	-570	-574	-112	+313 <sup>1</sup>	+260 <sup>1</sup>
France	-237	+20 <sup>1</sup>	+258 <sup>1</sup>	+787 <sup>1</sup>	+1041 <sup>1</sup>

<sup>1</sup> Import of capital.

<sup>2</sup> During the years 1923-27 the French franc was depreciating and there was a flight of capital from France of unknown volume. Most of it was invested at short-term rates abroad. Note that by 1929 the French investors were beginning to "smell a rat" and had started to recall their capital.

## Our Own Times

### BORROWING OPERATIONS

#### IMPORTS OF CAPITAL (in millions of dollars)

<i>Debtor Nations</i>	1924	1925	1926	1927	1928
Germany	+421	+857	+151	+1058	+974
Hungary	+ 27	..	+ 26	+ 89	+ 91
Poland	+ 48	+ 69	- 72 <sup>1</sup>	+ 82	+124
Argentina	+ 40	+ 47	+226	- 122 <sup>1</sup>	+181
Australia	+220	+110	+170	+ 188	+188
Canada	+107	+277	+173	- 137	-201
India	- 71	- 69	+178	+ 121	+ 67
Japan	+220	+ 74	+128	+ 50	+ 80

	1929	1930	1931	1932
Germany	+508	+120	-506 <sup>1</sup>	- 101 <sup>1</sup>
Hungary	+ 38	+ 24	+ 39	+ 4
Poland	+ 67	+ 1	- 5 <sup>1</sup>	..
Argentina	+ 4	+243	- 27 <sup>1</sup>	..
Australia	+214	+ 15	- 56 <sup>1</sup>	..
Canada	+ 65 <sup>1</sup>	+159 <sup>1</sup>	- 27	- 64
India	+ 37	+ 92	- 86	- 24
Japan	- 9	-128	-162	- 67

The figures in the above tables show clearly that the position of the United States had changed from that of a debtor to that of a creditor country. It is estimated that in 1914 foreign investments in the U.S.A. exceeded American overseas investments by \$3000 million. But by 1930 American loans abroad amounted to about \$10,000 million, to which had to be added the War debts owed to her, which were computed at \$7000 million.

It is evident that such a state of affairs could only continue to exist provided the United States was prepared to receive a great volume of imports as interest on her foreign loans. In fact, her high tariff and the reluctance of the debtor countries to depress their standards of living and so lower their costs of production in order to jump the American tariff wall prevented this flow of goods from taking place.<sup>2</sup>

<sup>1</sup> Export of capital.

<sup>2</sup> It is arguable that had the debtor countries endeavoured at all costs to export to America the American manufacturer would have demanded (and probably been granted) an increase in his tariff in order to protect the home market from dumped foreign goods.

## *Post-War Economic Recovery*

The situation was temporarily obscured by the export of gold to the U.S.A. and by the issue in America of fresh loans. Towards the end of the first post-War decade the position was further confused by the development of the New York stock market boom—of which more will be found in Chapter XIX.

The great changes in the direction and volume of the international capital movements shown by the tables was not accompanied to a corresponding extent by changes in the balance of account of goods and services between debtors and creditors. This meant that the transfer of capital took place largely in gold and this led to an accumulation of gold in certain countries—especially France.

Another important fact illustrated by the tables of capital export and import is the rapid rate at which Germany absorbed capital. These immense funds were used for three purposes; they were employed to meet reparation payments, and to this extent were wholly unproductive, and in part were used to reconstruct German industry which had by this time been starved of capital for many years. Further, some of the money was spent somewhat lavishly on municipal public works.

During this period public expenditure rose sharply in Germany, as may be seen from the following table, which is published in the *World Economic Survey*, 1931-32.

### PUBLIC EXPENDITURE ON EDUCATION, SOCIAL WELFARE AND HOUSING

(In thousands of Reichsmarks)

	1913-14	1925-26	1928-29
Education . . . . .	1,392	2,370	3,198
Social Welfare . . . . .	691	2,453	3,586
Housing . . . . .	31	1,070	1,542
	<hr/> 7,178	<hr/> 14,465	<hr/> 20,801
Estimated National Income .	45,700	59,900	75,400
Social Expenditure as a percentage of Total Expenditure . . .	10	24	25
2 A			369

It may be argued that it is not unreasonable to suppose that during the post-War period Germany would spend much more per annum on social services than in 1913. Ethically speaking that proposition is quite acceptable, but it does not square with the political and economic assumption that Germany had lost the War and had to pay for the damages. This meant in fact that the victors said to Germany: "For a generation your standard of living must be lower than ours and the fruits of your enforced denials will be sent to us as reparations which we will consume." The refusal of the Germans to accept more than a limited degree of economic slavery plus the refusal of the victors to accept such goods and services as the slave nation offered, were the elements of the reparations transfer problem, and one more factor of instability in the post-War economic system. On the general question of public expenditure on social services it may be observed that its rapid growth is a well-marked characteristic of our own times, and without entering into the differences of social philosophy which separate people in this matter of the degree to which the state should make itself responsible for such services, we can all agree that no more than a pint can be poured out of a pint pot, and that if the pot is to be enlarged to a quart it can only be filled if wealth production—in which is included the exchange of goods and services—be allowed to expand to the requisite amount.

It must further be pointed out that in the traditional economic system investors expect to see a cash return on their capital, and that no statistical means and measurements exist by which we can assess the gain to the community through capital expenditure on such projects as the preservation of open spaces, flowers in the parks, or specimens for museums. This is not to say that a thing which cannot be measured does not exist.

In the case of Germany it is fair to say that the forms of expenditure taken by much of her borrowed money may have enriched the German nation in those intangible respects summed up in the phrase "Man does not live by bread alone," but this expenditure was quite unproductive from

the point of view of the foreign creditors who wanted dividends—partly perhaps in order to beautify their own towns.

We will summarize and conclude this chapter by pointing out that apart from the special and temporary boom of 1921, there had been steady economic progress in the world since about 1922-23, a progress which became universal when it was shared by Europe after the improvement in her political situation which took place in 1925-26. This progress had been financed chiefly by the U.S.A. and Great Britain, and therein lay the first of its two fundamental weaknesses.

One of its financiers (the U.S.A.) was temperamentally "National," and had no experience of the job of judiciously supplying the world's economy with the sustenance of credit. The world's economic safety largely depended upon American credit; the German position was almost entirely at the mercy of America. The supply of American credit depended upon the mental processes of the American investor, and what was even more dangerous, the opinions of the U.S.A. Congress. The other financier (Great Britain) was internationally minded, armed with experience, but far too weak to contemplate with equanimity any exceptional strain on her own account, let alone the immense burden which would descend upon her if by any chance the American support of the credit system were withdrawn.

In 1929 the world's economic system was supported upon two main pillars of credit and neither was reliable. This was its first weakness and source of instability.

The second was the fact that the commercial side of the system was out of gear with its financial side. The maintenance of tariffs, particularly by that creditor nation, the U.S.A., prevented the debts from being liquidated. The economic progress had been stimulated by credits, but the fiscal policies of the chief states (except Great Britain) worked to prevent the fruits of that progress from being harvested. The U.S.A. would not take imports and Great Britain could not sell her exports. Did space permit,

much more evidence could be cited, such as the continuation of the problems of War Debts and Reparation; the undervaluation of currencies (France); the over-valuation of currencies (Great Britain); the rampant growth of economic nationalism, with its determination to foster within national boundaries industries which had grown up for war purposes, but which were uneconomic in a free-trade world; to prove that in 1929 the world's economy, outwardly fair to the eye and impressively fat, was in reality rotten within, and like a carcass blown up by its own gas, it was ripe for a great deflation.

## CHAPTER XVIII

### CART BEFORE HORSE

“ Find out the cause of this effect,  
Or rather say, the cause of this defect,  
For this effect defective comes by cause.”—*Hamlet*.

“ They are as sick that surfeit with too much, as they that starve  
with nothing.” *Merchant of Venice*.

#### 1. *Explanation*

THE contents of this chapter consist of some account of the extent and significance of the fall in the general price level and the disparities between the falls of particular prices, which were symptoms of the economic *malaise* during most of the post-War period. This business achieved, the chapter then proceeds to a brief account of some of the devices used in an attempt to check the fall in prices and cause them to move in the opposite direction.

The discerning reader will by this time have perceived that there is a variety of reasons which justify the somewhat cryptic title at the head of this page.

First, we are about to discuss certain aspects of the world economic crisis before we describe how the crisis developed. The reason for this procedure is that it cannot be assumed with safety that some of the people for whom this book is written are fully aware of the significance of price movements. There are still many people who are surprised to hear that a movement in the bank rate (price of money), or a sharp break in the world price of wheat, may be events more significant to humanity than the results of a general election. The writer of this book dwelt in that land of economic ignorance up to times so recent that the thought thereof is one of the few which can make him blush.

It is quite useless to study the course of the economic crisis unless one has a sense of the workings of the economic

world as reflected in the price system, and what it means to human beings when prices move in certain ways.

Secondly, it seemed sensible to link up with an account of price movements a description of some of the methods which were adopted as the crisis developed in order to counteract the great price-fall. The nature of those activities provides one with a perfect example of many carts being manœuvred in front of one poor old horse—the unsatisfied consumer.

## *2. The Price System*

The price system of the economic world is at the centre of its being. It has been compared—but the comparison is incomplete—to the nervous system of the human body in so much as movements of prices indicate changes in economic conditions.

Unfortunately an excursion into the question of prices, their changes, their relationships, soon leads one into complicated economic theory, just as an intention to study rainfall would involve meteorology as a whole. For instance, to illustrate by one observation the pitfalls in this subject of prices, it must be remembered that a price-structure, or collection of prices, is something which can only exist for an instant of time. It is, furthermore, a conception composed of an infinite number of variables. Moreover, changes take place in the value of money itself, the unstable medium in which prices are usually expressed. Since the present writer has neither the knowledge nor the ambition to add to the considerable literature on the subject of prices and money, we must confine ourselves here to the blunt announcement that economists and statisticians have devised pieces of apparatus called Price Indices. A Price Index makes it possible within certain known limits of accuracy to compare the exchange value over periods of time of single commodities or groups of commodities and services.

The following Table shows the movement of the Statist Index number for all foodstuffs, all materials (such as minerals, textiles, etc.), and all commodities since 1913 :

## *Cart before Horse*

Average Price—1867-77 = 100

<i>Year</i>	<i>Foodstuffs</i>	<i>Materials</i>	<i>Commodities</i>
1913	77	91	85
1914	81	88	85
1915	170	108	108
1916	130	140	136
1917	169	179	175
1918	174	206	192
1919	185	222	206
1920	234	264	251
1921	158	153	155
1922	130	132	131
1923	122	134	129
1924	130	146	139
1925	128	143	136
1926	119	131	126
1927	114	129	122
1928	114	124	120
1929	110	119	115
1930	96	97	97
1931	83	82	83
1932	72, <sup>1</sup> 105, <sup>2</sup> 50, <sup>3</sup> 79	99, <sup>4</sup> 64, <sup>5</sup> 81, <sup>6</sup> 81	80

This shows that after the phenomenal rise during the War years there was an equally sharp fall followed by a much smaller rise during the recovery years of 1924-27, and then a precipitate fall of 30 per cent. between 1929 and 1932. It should be noted that this figure includes many commodities whose prices enjoyed a considerable degree of shelter in their home market.

If the price movements of particular commodities are examined (and especially of commodities which bulk largely in international trade) some extraordinary results can be obtained. Whereas, during the period 1919-32, wheat had reached its peak price, in December 1932 the price of wheat in the world market fell to the lowest figure recorded for over 400 years. In Canada it was cheaper than sawdust. Tin, sugar, coffee, jute, silk, wool and rubber were amongst

<sup>1</sup> Vegetable food—corn, etc.

<sup>3</sup> Sugar, coffee, tea.

<sup>5</sup> Textiles.

<sup>2</sup> Animal food—meat, etc.

<sup>4</sup> Minerals.

<sup>6</sup> Sundry materials.

the important commodities whose downward price variation was in the region of 100 per cent. during the years under review.

Not only was the fall in prices during the years 1929-32 phenomenal, but it was a fall which occurred very unevenly as between various commodities.

Prices of raw materials—especially agricultural products—fell more rapidly than prices of manufactured articles, and this fact introduced a special complication into the disturbed economic system of the world.

The following Table (I) illustrates the greater extent of the fall which occurred in raw materials, as compared with that of finished goods.

TABLE I <sup>1</sup>

Percentage Fall in Wholesale Price Indices of Raw Materials  
and Manufactured Goods in Certain Countries

January 1929-January 1932

	<i>Raw Materials, Per Cent.</i>	<i>Manufactured Goods, Per Cent.</i>
Canada . . .	38	22
Germany . . .	31	21
Italy . . .	44	30
U.S.A. . . .	39	26

In most agricultural countries the wholesale price-level was below pre-War level by June 1931; in the highly industrialized countries it was about 10 per cent. above that figure. The reason for this discrepancy (which is a well-known feature of a severe price-fall during a depression) is due to several causes, of which two are as follows. There is an inevitable time lag between the production of the raw material and its appearance as a finished article. When the depression begins and consumers' demand falls off, the manufacturer stops buying raw material (thus causing the price to fall) and lives on his reserve stocks. Secondly, the

<sup>1</sup> See *World Economic Survey*, 1932, p. 129.

## *Cart before Horse*

raw material producers—especially agriculturists—are not well organized and do not find it easy to restrict production and forcibly hold up prices.

### *3. Prices and the Producer*

Having made a brief survey of the statistical facts of the price-fall we must now address ourselves to the following practical questions: (1) What was the effect of this fall in prices? (2) What was its cause?

It may be as well to state at once that a third question, namely, "Is a price-fall of the nature we have been discussing, a cause of certain effects, or are certain effects the cause of the price-fall?" is one which has exercised and still troubles the minds of the world's economists, and, though we shall touch very lightly upon it at the end of this chapter, we must firmly avoid the temptation to penetrate into a subject which is controversial, confusing and complicated to the highest degree. Which came first—the chicken or the egg?—is a simple conundrum in comparison with some aspects of the price-fall controversy.

It seems safest and most sensible to approach the subject from the point of view of the average producer who, during the period 1929-32, discovered by painful experience that the money-price of the article he was producing for sale was becoming progressively less. What happened?

A one-word answer to this question is "CRISIS." In greater detail, the effects of the fall in prices were as follows:

The burden of all debts contracted at times of higher price levels became increasingly burdensome to debtors as prices fell. All debts must ultimately be discharged in goods, services or gold. The amount of gold available being strictly limited and (in pre-War days when the gold standard operated satisfactorily) being used for the settlement of relatively small differences in the balance of international trade, the principal method of settling debts both of interest and capital is through payments in goods or services. Now it is clear that if a farmer contracts a

debt with his bank when wheat is a dollar a bushel,<sup>1</sup> and if the annual interest payment and sinking fund on this debt is \$100, this is only a more convenient method of saying that the farmer contracts to pay the bank 100 bushels of wheat per annum. Now, suppose the price of wheat falls to 50 cents a bushel (as it did in 1932), it is clear that the farmer must now hand over 200 bushels to the bank to settle his debt. But this is not the sum total of his difficulties. Let us assume that he normally produces 1000 bushels. With wheat on the dollar mark he is left with 900 bushels—\$900 for his other expenses after he has paid the bank. But if wheat has fallen by 50 per cent. in price, his available surplus of 800 bushels will only give him an income of \$400. But, it may be argued, other prices will have fallen as well as the price of wheat, and so the farmer's \$400 may be expected to purchase more than it did in times of high prices. True, but not as much, for the prices of manufactured goods (see table on p. 376) have not fallen in proportion to the fall in wheat prices. The farmer sells cheap but buys dear. As he is now almost if not quite bankrupt he buys as little as he can of manufactured articles. Thus, as the incomes of agriculturists fall—due to the fall in their receipts—so does their demand for manufactured goods. There is a consequent fall in the price of factory goods and a decline and eventual disappearance of manufacturers' profits, leading to unemployment which in turn leads to a decrease in consumption of agricultural products (producing a further fall in their prices), also to an increase in the burden of the manufacturers' capital (debt) charges.

Let us return for a moment to the farmer. Faced with the fall in the price of wheat he (and millions of his fellow-farmers) strive desperately to grow more wheat and so compensate by increased volume for decreased value.<sup>2</sup>

<sup>1</sup> "Dollar wheat" has usually been considered a satisfactory price by farmers in North America. During the War the U.S.A. Government guaranteed their farmers \$2.20 a bushel.

<sup>2</sup> He also demands a subsidy from his politicians, for he points out :

- (a) that he is an important member of the community.
- (b) that he has political influence.
- (c) that the nation's food supply in time of war depends on his activity.
- (d) that he cannot hold up production, etc., etc.

The stocks of wheat rise and deluge the weak market and further depress the price.

But, it may be argued, what about costs? Falling prices need not cause the profitability of production to disappear if costs can be reduced as the price falls. But there are limits to the cutting of costs. One element is wages. Here we border on politics.<sup>1</sup> There is resistance to wage-cuts and perhaps in any case the process of production is one in which wage-costs do not account for a large share of total costs. In any case, leaving aside all social and ethical considerations the wage-costs of the producer are the incomes of a number of consumers, and if their incomes (purchasing-power) are further reduced they will have to tighten their belts and consume less and so further reduce prices.

This over-simplified sketch of the consequences of a rapid price-fall could be expanded into a book, and for the individual we might substitute the group of individuals which form a nation, and consider the matter from the point of view of international balances of payments (export and imports, visible and invisible). We could compose our picture in terms of national credit. We could suppose ourselves a banker who has lent great sums of money on the security of assets which by all the canons of prudent banking seemed sound and easily realizable for ample values when prices are stable. Now comes the price-fall. The banker's clients being hard pressed by the chain of events demand repayment of their funds. The banker tries to realize his assets. The price-fall has "frozen" them solid. Desperately he throws them on the market. Some are foreign bonds of the utmost respectability in normal times (let us call them "Wonderland" bonds), but now their price is very low, and as they flood the market there are no buyers but only sellers and the price falls again. The price is low because that very respectable state of "Wonderland" has a tremendous budget deficit. Why? Because the fall in prices has: (1) greatly reduced its receipts from the export of coffee, rubber, wool,

<sup>1</sup> The growth in the strength of organized labour and the consequent "rigidity" of wages is an important characteristic of our own times.

tin and cotton, or whatever it may be; (2) reduced the profitability of its great coal-mining industry to next to nothing, so income-tax returns and government royalties are badly down; (3) Heavily hit its shipping services since freights are low and anyhow the usually heavy exports of coal have stopped, due to the impossibility of selling them at a profit, etc., etc., etc.; (4) Unemployment is rising and so are the costs of social services. Because of these circumstances the budget has gone to the devil, there is political trouble brewing, and it is very doubtful whether the service on the foreign loan can be met even if the government (hitherto so punctilious in such matters) was not contemplating a default as the lesser of two evils, the other being an increase in taxation which would probably lead to a Communist uprising.

For these reasons the government bonds of Wonderland are as stinking fish in the banker's portfolio.

To sum up: In general terms, a rapid fall in the general price level (or a rise for that matter—but we are here considering the great fall which took place, particularly between 1929 and 1932, which succeeded a slower fall between 1920 and 1929) dislocates every articulated joint in the world economic system.<sup>1</sup> Prices are the balancing mechanism of economic transactions and the economic system cannot rapidly adjust itself to violent changes in its balances any more than the trim of a ship can be immediately adjusted to sudden movements of cargo and ballast. A catalogue of the consequences of the price-fall between 1929 and 1932 should include the following interconnected items each of which has an immense number of secondary consequences:

1. Increase in the burden of debt—leading to defaults.
2. Reduction of profitability of enterprise.
3. Decrease of the value and volume of trade.
4. Increase of economic nationalism.

<sup>1</sup> Readers with electrical knowledge should imagine a carefully balanced electrical circuit. The effects of sudden price movement correspond to the electrical effects of suddenly introducing a great number of varying resistances into the circuit.

## *Cart before Horse*

5. Restriction schemes and attempts to protect home prices.
6. Cessation of investment.
7. Political troubles.<sup>1</sup>
8. Exposure of illegal practices (Hatry, Kysant, Kreuger cases, etc.).<sup>2</sup>
9. Unstable International Exchanges.
10. Increased unemployment.

### *4. Cause or Effect?*

What were the causes of this great price-fall in so far as the fall can be directly described as an "effect" of causes? The *World Economic Survey*, 1931-32, published by the best-informed and most objectively minded economic intelligence service in the world—that of the League of Nations—says upon this subject:

"It (the collapse of prices after 1929) is so far-reaching and complete that it is unlikely to have been produced by any single cause. The variety and contradictory nature of the explanations offered, even in expert circles, leads in itself to a suspicion that the causes are complex and not fully understood. It is not only the monetary mechanism but the whole economic organization of the world that has been affected, and it is unlikely that any single weakness would have caused such a general collapse."<sup>3</sup>

Another cautious view was that expressed by the *Macmillan Report* in 1931, which said: "The recent world-wide fall of prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of

<sup>1</sup> *E.g.* The revolutions in the South and Central American States in 1930. (See *Survey of Int. Affairs for 1930*, Part V, Sec. I.)

<sup>2</sup> In high finance the dividing line between extreme optimism and fraud is indistinguishable.

<sup>3</sup> *World Economic Survey*, 1931-32, p. 115.

unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena.”<sup>1</sup>

One school of economic thought has argued that the main cause of the fall of the price level has been the mal-distribution of the world's monetary stock of gold. Another view held that the word “mal-distribution” was ill-chosen. The abnormal distribution of the world stocks of gold was only an effect of economic stresses and strains which produced the fall in prices. Gold, argued the members of this school of thought, had moved in large volume at various times to various centres because it had been necessary to settle the balances of payments between countries with gold to a far greater extent than had been the case in the past. This use of gold instead of goods as a debt-settling medium had become necessary because many of these loans had been made for non-productive purposes and were therefore not self-liquidating; because tariffs and other weapons of the economic war hindered the movements of goods; because of reparations and War debts which were one-way payments; because of the existence of a great volume of short-term money which moved, often in the shape of gold, to whichever centre seemed safest at the moment.<sup>2</sup>

Whatever may be the exact influence which should be attributed to these and similar causes for the shortage of gold in some centres and the plethora of the metal in others (especially New York and Paris), the unbalanced state of distribution of the gold of the world meant that in the gold-starved centres there was (so long as they were on the gold standard) enforced deflation and a fall in prices which in its turn forced down world prices.

It is also important to remember that, particularly in France and to some extent in the U.S.A., for reasons connected with the domestic currency laws regulating these gold reserves, the influx of gold was not allowed to increase the note circulation and so raise prices in those countries.

<sup>1</sup> Compare this cryptic statement with the definition of the British Commonwealth of Nations! See p. 262.

<sup>2</sup> See p. 366.

It was therefore said that many millions of pounds worth of gold were "sterilized" or "immobilized" in the vaults of the Bank of France and Federal Reserve Board because this gold was not supporting a structure of credit, and that for all the good it was doing in the world's monetary system it might as well never have been dug out of its mines.

Whatever may have been the cause of the catastrophic fall in *so short a time* in the level of world prices, it is certain that it was a phenomenon which profoundly disorganized the whole economic system. One consequence of the crisis was a reduction in the purchasing-power of the individual and—even allowing for the fall in prices—a reduction in consumption. Stocks, especially stocks of foodstuffs and raw materials, such as rubber, tea, tin and coffee, increased enormously, and as the crisis deepened, bewildered humanity found itself starving in the midst of plenty. It was also that aspect of the world crisis which was most evident to all men, and it is natural that many minds concentrated upon devising measures which would first arrest the fall and then bring about a rise in prices.

### *5. Remedial Measures*

Many and various have been the devices and dodges proposed and attempted by governments and groups of private persons during the post-War period in order to bring about a rise in prices. These palliatives have been based on an argument which, crudely put, runs somewhat as follows: Prices have fallen precipitously; particular prices are out of their accustomed relation with other prices. If we can do anything which will raise prices and readjust relationships between groups of prices we shall have done good.

This sounds suspiciously like attempting to deal with a sick man whose symptom is a temperature of 104° F. by putting him into a refrigerating chamber. One disadvantage of this process would be that by arresting decay one might not be able to tell when he was dead! However, though ice-bags have their value in the sick-room, a great deal of

inevitable and desirable decay has been arrested in the world's body economic since 1919. The various methods which were employed in the attempts to hold up and restore prices can be roughly classified under four heads :

- (a) Restriction schemes.
- (b) Monetary methods.
- (c) Subsidies.
- (d) Public works.

Of the last two methods it might be said in the words of the Oxford man who was asked to compare and contrast New Guinea and British Guiana : " These are manifestly different aspects of the same idea."

### *Restriction Schemes*

Restriction schemes for certain raw materials existed before the War,<sup>1</sup> but after 1918 they began to multiply and a number of them were in being before the arrival of the crisis. Their rapid growth after the War was in large part due to the extraordinary speed of the technical progress in production which in Chapter XIV we called the second Industrial Revolution. The post-War changes in technique, exemplified by the mechanization of agriculture, rapidly reduced costs and stimulated production at a speed which disturbed the balance between production and *effective* demand. This point is one which cannot be elaborated here. It must suffice to say that though such progress benefits humanity in the long-run, if the speed at which old plant becomes obsolete is *very rapid* the dislocation of the social-economic system due to bankruptcies, etc., is correspondingly severe, and so there is some measure of justification for attempts made by restriction schemes to ease the " fierceness " with which natural competitive forces reshape the economic structure.

Before 1929, tin, rubber, sugar, coffee, petroleum, copper,

<sup>1</sup> The existence of cartels, price-fixing schemes, pools, trusts, etc., etc., have been a part of the economic system of man from the earliest times. In modern times a great campaign was waged in the United States just before the War to " bust the trusts."

lead, spelter, nitrate and wheat were amongst the commodities which, taking into account the three factors of production, consumption and price, were in an unstable condition, and in many cases attempts were made to control the situation by restriction schemes. When in 1928-29 there was superimposed upon the existing troubles of the producers of raw materials the strain of the abnormal fall in the price level, it was not to be wondered at that, as men wriggled convulsively in their attempts to escape from the price-squeezing jaws of the crisis, there was a widespread resort to limitation of output as a method of counteracting the price fall.

The apostles of the "economics of glut" emphasized that "over-production" was to be seen on all sides. In fact the relation between this so-called over-production of food-stuffs and raw materials and the fall in the price of these commodities is a myth. In the words of a document<sup>1</sup> prepared for the British Commonwealth Delegations to the World Economic Conference :

"An examination of the price movement of representative commodities shows that the extent of the price fall has, on the whole, borne little relation to the increase in production."

Wheat is one of the commodities in which there is commonly said to have been great over-production, and the most desperate and more or less ineffective efforts were made to control the production and the export surplus in order to check the price fall. Yet it can be shown beyond dispute<sup>2</sup> that wheat crops since the War have never reached the level they would have reached if the pre-War rate of expansion had continued. In the critical crop year of 1929-30, when the catastrophic fall in wheat prices began, the world's crop was actually about 12·8 per cent. smaller than that of 1928-29.

The following table illustrates the lack of relation between production and price fall in some typical commodities.

<sup>1</sup> *Regulation of Supply*, prepared by the Statistics and Intelligence Branch, Empire Marketing Board.

<sup>2</sup> See *World Agriculture*, p. 16.

## Our Own Times

CROP PRODUCTION 1925 = 100    PRICES DECEMBER 1925 = 100

Year	Wheat	Price	Cane Sugar	Price	Cotton	Price	Petrol- eum	Price
1926	104	89	100	131	102	65	102	113
1927	106	84	105	107	86	107	117	79
1928	115	76	111	86	94	106	123	78
1929	103	78	112	73	94	94	138	84
1930	117	43	104	52	92	54	131	55
1931	108	32	105	41	97	36	128	46

However, the lure of making things dear by making them scarce was very strong, and the following commodities have experienced the extremely questionable benefits of schemes for the regulation of supply during the period under review : wheat, sugar, tin, tea, rubber, nitrates, Greek currants, aluminium, copper, zinc, lead, potash, cotton, coffee,<sup>1</sup> pigs. Most of the schemes depended upon some degree of international co-operation.<sup>2</sup>

Of all these schemes (tin is an exception) it is broadly true to say that they failed, and the cause of the failure is not far to seek. They depended for their success upon an international co-operation. It was the lack of such co-operation which had created the world conditions which caused the price fall these schemes were designed to correct.

As a rule, international schemes for restriction and regulation of supplies aimed at controlling at least two of the following factors : Production, Exports, Stocks. Most schemes dealing with commodities which bulk largely in world trade, *e.g.* wheat, pivot about the control of exports from the producing countries. Quotas are allotted to each country, and each participant in the scheme is then left to make its own arrangements for not exceeding its allowance. In some cases it may export an additional

<sup>1</sup> It was announced in March 1934 that 26,622,373 bags of coffee (about two years' requirements) had been destroyed since 1921.

<sup>2</sup> It is significant that wool which has been left to meet the open market was in 1934 the first commodity to experience a sharp rise in price.

## *Cart before Horse*

amount on payment of a levy to a central fund. The following passage is a summary of a section in the document already referred to, which deals with the conditions essential to the successful regulation of supply.

- (1) The scope of a scheme must be sufficiently wide to include the greater part of the supplies entering the world market.
- (2) The objects of the scheme must be clearly defined so as to command the confidence of traders and consumers, and the temptation to exploit monopolistic power must be resisted.
- (3) The rules of the scheme must be definite, yet sufficiently flexible to allow for adjustment as the scheme begins to work, since it is usually impossible to forecast its result.<sup>1</sup> This really means dictatorial power at the centre.
- (4) An accurate appreciation of the statistical situation of the commodity is essential. At present world and even national statistics are hopelessly inadequate as a basis for planned supply.
- (5) "Surplus capacity" (so-called) requires special treatment. For instance, Canada has for many years built up an economy on the assumption that she will be able to market a great wheat surplus. She has built railways, elevators, store-houses, etc., etc., on this assumption. What is to happen to all this fixed capital if in the world of the immediate future Canadian exports of wheat are to be limited? One cannot turn a wheat-field into a grape-fruit grove.
- (6) Experience shows that regulation in the field of primary products requires some degree of government backing in order to cope with the minority who by standing out of any scheme can wreck its success.<sup>2</sup>

<sup>1</sup> *E.g.* the unexpected results of milk and pig control in Great Britain in 1933.

<sup>2</sup> Interesting information concerning restriction schemes will be found in *The Special Memorandum*, No. 32, London and Cambridge Economic Service.

*Monetary Methods*

The advocates of monetary methods as a means of raising prices based their views on the theory that by increasing the quantity of money and the velocity of its circulation it should be possible to raise the general price level. From this starting line a vast number of hares have set forth, many of which, in the manner of hares, have run in circles. On the extreme right could be found the British Government, which, as we shall describe in Volume II, whilst rigidly opposed to any inflation—or increase of quantity—pursued a policy of lowering the rate of interest, and so making credit cheap. It is arguable that this policy could be brought into the category of methods aiming at increasing the rate of circulation of existing money. The most famous governmental policies which aimed at increasing the quantity of money were to be the inflationary measures put about in the U.S.A. Many of these were chaperoned by public works schemes, but, as we shall see when we consider in Volume II the Roosevelt policies, the President and his advisers also tested a theory that devaluation of the dollar in terms of gold and its consequent depreciation on the foreign exchanges would raise prices in the U.S.A.

Here is the place to mention that, as will be described when we come to the record of events, one effect of the crisis was to drive every important State either off the gold standard or into what has been called a gilt standard—*i.e.* a fictitious affair in which the gold value of the currency is retained by rigid control of the export of exchange. The devaluation of many currencies which took place during the crisis was in a sense a monetary method of dealing with the fall in the price level.

All these methods, and sundry variants thereof, aimed at making use of the existing monetary systems, and might be described as suggestions for artificially stimulating the workings of the monetary machine in one or more particular directions. Broadly speaking, the most radical advocate of this form of monetary remedy went no further than to

suggest that the existing system was finding it difficult to adjust itself to abnormal conditions and could be lubricated to ensure smoother working. Another school of thought, belonging to the orthodox camp, said that certain things needed doing—such as the scaling down of debt burdens—and that these things were best done under the cloak of monetary action (*e.g.* abandonment of the gold standard). But separated by a great gulf from the orthodox or quasi-orthodox remedial proposals on the side of money stood the monetary heretics. Of this group Major Douglas, with his social-credit scheme, was the best known. Here it is only necessary to remark that in general the advocates of increasing the number of “tokens” (money) in consumers’ pockets as a means of removing the paradox of “starvation in the midst of plenty” were usually in the embarrassing position of being confirmed believers in the capitalist system and the sanctity of private property, who were in fact partly advocating advanced socialistic measures.<sup>1</sup> They were—for their own peace of mind—usually ignorant of their position because they did not understand the true significance of money. This band of monetary reformers failed to understand that the reason poor people did not consume was that they were devoid of the legal title (purchasing power) to the wealth which was cluttering up world markets and they could only obtain that purchasing power by offering their labour to the capitalist. The latter refused this offer—hence unemployment—because to employ more labour would necessarily increase real wealth, of which there seemed to the producer to be a surplus quantity in existence. This was true if surplus be measured in relation to “effective demand,” but quite untrue if measured in relation to “consuming capacity.” There was, of course, only one logical way out, and that was for the existing purchasing-power to be redistributed amongst under-consumers, by such measures as increases in wages and social services. Since such proposals involved an immediate (not necessarily permanent) loss of profitability to entre-

<sup>1</sup> With the proviso that a Socialist objects to direct inflation because it redistributes property anti-socially.

preneurs and an increase in taxation, the capitalist usually viewed them with hostility and declared they would check his enterprise.

*Subsidies*

The exceptional confusion and chaos into which the economic arrangements of men drifted from 1929 onwards is illustrated by the fact that whilst in one direction governments were often to be found trying to do something in the monetary sphere in order to restore economic activity and so raise prices, they would also be found simultaneously to be very active in aiding and abetting restriction of production, and—(this is not the fiction of a disordered mind, but a fact)—again at the same time busy taxing one branch of production in order to stimulate production in another branch.

“Ah!” exclaims the reader, who has an uneasy feeling that such lunacy on the part of his representatives might reflect upon his own electoral sanity, “but no doubt there was over-production of the restricted commodity and under-production of the subsidized commodity.” On the contrary, it was not in the least difficult to find cases in which subsidies for the increase of production strove manfully against schemes for the decrease of production. For instance, notwithstanding the wheat restriction scheme, which will be described in Volume II, there was not a single wheat-importing country of importance which was not also actively subsidizing the production of wheat until in some parts of Europe the consumer was paying as much as four times the world market price for this commodity. The following incident is typical of the topsy-turvy state into which international commerce drifted during the crisis. A case was reported of a Trieste merchant offering Italian wheat flour to an Austrian importer. The wheat was to be delivered at the Austrian frontier free, gratis and for nothing, provided the Austrian paid the customs dues, and in addition the Italian promised to give the Austrian 15 lire for each quintal of free flour which he accepted. The object of this

## *Cart before Horse*

strange transaction from the Italian's point of view was to prepare documents showing that he had exported flour. This would then enable him to claim the Italian export premium, which is so great that it would still leave the exporter a profit after he had bought his wheat, paid all the costs of turning it into flour and its carriage to the frontier, and the bribe to the Austrian. The incident becomes the more extraordinary in view of the fact that Italy is an importer of Hungarian flour.

A form of subsidy which seemed particularly objectionable to the British was that of shipping, but, as we shall see in Volume II, by the spring of 1934 evil communications were so to corrupt good commerce that British shipowners were to be anxiously moored in long lines outside the offices of the Board of Trade waiting for a subsidy to blow their ships out of port and on to the trade routes of the world.

## *Public Works*

Another remedy for the price fall which was much discussed during the crisis, and attempted in all countries in varying degrees, was that of "Public Works." It was argued that in time of depression, when the confidence of the investor has disappeared, the economic machine can be pushed over its dead centre if the state will undertake large-scale capital expenditure on such matters as housing, roads, telephone development, water-works, land reclamation, and the like. The pros and cons of public works as a remedy for depression are widely debated amongst economists, and the argument is hopelessly confused by the inevitable introduction into the debate of the wider and highly controversial issue of the degree to which the state may properly intervene in economic life.

There seem to be sound reasons for supposing that in a national economy controlled by inhumanly far-seeing statesmen, public works would, as a rule, be reserved for times of depression, but that in Great Britain our peculiar difficulties due to the anæmic condition of international

trade—our traditional source of income—had obliged successive governments ever since the War to draw heavily on the pigeon-holes in Whitehall where are filed the schemes for productive public works. This meant that in Great Britain—with the probable exception of housing—much had been done before 1929–30, and done during periods of high money rates which, as we shall see in Volume II, it would have been both cheaper and more politically convenient to do between 1930–33.

The Russian economy—as we have noted in Chapter VI—was essentially nothing but a huge public work, and in Germany prior to 1931 there had been considerable expenditure in this direction, expenditure financed with money borrowed from abroad. But in general at the beginning of the crisis there was a contraction in the expenditure on public works. This happened when—with certain exceptions—countries were still endeavouring to grapple with the crisis by orthodox methods of economizing in order to balance their budgets and preserve the external value of their currencies. In some cases the contraction of public works was due to the cutting off of foreign loans when the crisis caused international lending to cease. For example, in Australia, Commonwealth loan expenditures for works fell from £8·7 million in 1927–28 to £2 million in 1930–1931. The corresponding figures for the States were £35·6 million and £12·7 million. In Italy expenditure on public works was 2048 million lire in 1928–29, and 1726 million in 1931–32. On the other hand, as the intensity of the crisis increased, and with it unemployment grew to unprecedented figures, many countries, notably Germany, Sweden and the U.S.A., turned to large-scale expenditure on public works as a remedy for their distress. The question of public works was debated at the World Economic Conference of 1933, but we are now running too far ahead of our story in point of time, and we must reserve a further account of these experiments to the appropriate chapters in Volume II.

*Summary*

It seems probable that the fall in the price level was primarily an effect of the disequilibrium of the world economic system which had its roots in man's inability to co-operate politically. During the post-War period not only were important technical changes (accelerated by the War) taking place in industry, but the latter was also shifting its geographical location (e.g. industrialization of the Far East). Changes were taking place in social habits such as a rise in the standard of living, an increase in state-controlled social services and a growing inflexibility of wage rates. The War itself had added war debts and reparations to the long list of the causes of economic maladjustment. There were large, and perhaps unduly large, gaps between wholesale and retail prices; between prices of raw materials and manufactured goods; and between the price structures of various countries. The general return to the gold standard, which took place between 1924 and 1928, should have brought about a general levelling up of national price levels, but in fact such an event could only take place at the cost of readjustments of debt structures and national price systems which were in many cases politically impossible; hence the collapse of the post-War gold standard.

Moreover, it should be remembered that there had already been a severe price fall between 1920 and 1922, after the war-time rise in prices of about 140 per cent. In 1922 prices were about 40 per cent. above the pre-War level. Within ten years the international economic system was subjected to the second great price fall which we have been discussing in this chapter, and this time the average level of prices in 1933 was carried to something in the region of 15 per cent. to 20 per cent. below pre-War level. Once a price fall has started this effect becomes itself one of the causes of further instability. Local measures to check the fall and induce a rise seem justifiable as palliatives, as salvage work, provided always that such measures are recognized as being in no way substitutes for the radical

remedies—many of which are political—which alone could create that feeling of confidence in the future and hence an increase in consumption, the lack of which was perhaps the most important single cause of the precipitate breaking up of the world's commercial and financial arrangements.

## CHAPTER XIX

### THE FINANCIAL CRISIS, 1929-31

"When thy neighbour's home doth burn, be careful of thine own."  
Old Proverb.

"When we have gold we are in fear, when we have none we are in danger."  
An Italian Proverb.

"Riches are like muck which stink in a heap, but, spread abroad, make the earth fruitful."  
FRANCIS BACON.

#### I

IT had been agreed in 1922 at the Brussels Conference that it was useless to expect a trade revival until financial stability had been restored, and that therefore stabilization of the exchanges must be the first task. As we have seen, this had been accomplished by 1928, but finance is the hand-maiden of production, whilst production is purposeless unless it is followed by distribution, which in its turn is merely an essential step towards the final purpose of economic activity which is CONSUMPTION. Finance does not clothe naked men nor fill hungry bellies. The financial system with its price mechanism is the carburettor and petrol supply system of the economic motor-car in which "production" is represented by the cylinders and pistons.

In this chapter we shall survey the rapid collapse of the hardly-achieved financial recovery of 1922-28; a dramatic sequence of events which still further dislocated the world's commercial system, whose failure to function sufficiently freely was the first cause of the financial débâcle.

The speed and extent of the collapse of the financial system is shown by the following facts:

- (1) In 1924 the U.S.A., with 110 million inhabitants, was the only important state in the world whose currency was on a gold standard basis.

- (2) By 1929, 25 out of the 33 most important commercial states, with a total of 808 million inhabitants, were using currencies connected either directly or indirectly (gold exchange standard) with gold and therefore with each other.
- (3) By 1932 four states (France, Holland, Switzerland and Belgium), with a population of approximately 62 millions, were the only states on an effective gold standard.

From confusion to order and back again to confusion was the financial story of eight hectic years.

2

It is a striking commentary upon the economic interdependence of a post-War world partially reconstituted upon the lines of the pre-War model that gale warnings indicating the imminence of a financial débâcle were signalled from points so far distant from each other as New York and Sydney. In the U.S.A. the central banking system (Federal Reserve Bank) was in 1927 under the control of Governor Benjamin Strong, a man who believed in the essential economic unity of the world and the necessity for international economic co-operation. Under his influence the American bank rate was kept very low in order both to repel gold from her already swollen reserves and to encourage foreign borrowing in New York. Now, though a central bank can undoubtedly make credit cheap, its authorities cannot do more than exercise an influence on national commercial policy, and if credit is cheap and foreign loans are floated there will be trouble if the national tariff policy is such that the debtors cannot repay the loans in terms of goods or services. Moreover, the extent to which a central bank, having made credit cheap, can control its use either in volume, velocity or direction is a very controversial question. There is, however, less controversy concerning the statement that in order to control the use of credit, a central banking system

requires to be furnished with powers—and traditions—which were not at the disposal of the American authorities, whilst there is no controversy at all about the historical fact that about 1928 a stock market boom started on the New York Exchange; a boom which passed beyond the control of the authorities and whose speculation waxed grossly fat upon the mass of credit available. The boom was further stimulated by the action of Mr. Mellon, the American Secretary of the Treasury who, about this time, remitted taxation on a very large scale. The eyes of the American people were now turned towards their own country which superficially seemed to be enjoying amazing prosperity, and earnest seekers after the magic formula journeyed from Europe across the Atlantic and then returned to write books explaining the secret of America's prosperity. In the fifteenth century Europe had discovered America and thus inaugurated the economic development of that great area; in the 1920's America had apparently discovered the secret of perpetual prosperity at an ever-rising standard of living, and only a few despised and unheeded croakers in cynical and sophisticated Europe suggested that all this was too good to be true and perhaps too true to be good. We have already seen in Chapter XVII that the U.S.A. was one of the chief sources of the supply of credit during the period after 1926 when the post-War economic recovery spread to Europe. Her loans to Germany, for example, were at the basis of such ability as Germany had shown to make payments of reparations since the Dawes and Young schemes had been in force.

Now, with President "Prosperity" Hoover firmly in the saddle, the stock markets rising steadily, the Americans ceased foreign lending and turned to domestic investment.

In 1928 the value of the new capital issues in the U.S.A. was \$6789 millions; in 1929 it was \$9420 millions. In 1928 the U.S.A. exported \$1126 millions of capital; in 1929 that figure fell to \$225 millions, and by 1931 it was zero. The violent cutting off of supplies of capital from the U.S.A. threw an immediate strain upon France and Great Britain, the other two potential creditor countries.

France was, however, engaged at this period in bringing home the balances which had fled abroad when the franc was depreciating, and in 1928 she only exported \$237 million (the figure for 1927 had been \$504 million), whilst in 1929 she *imported* \$20 million, and in 1930 she *imported* \$258 million.<sup>1</sup>

Great Britain, true to her principles and the pre-War responsibilities she had been anxious to resume, endeavoured to come to the rescue of the international capital market. In 1928 and 1929 she lent abroad \$570 and \$574 million respectively,<sup>2</sup> but it was now, as we shall have to record elsewhere, becoming apparent that Britain's strength was insufficient for a task which was indeed almost impossible of fulfilment in a world which had refused to accept the British policy of freer trade.

To return to the New York market stock boom. It had another very evil effect. The fantastic speculation which was lifting security prices to absurd heights in New York attracted funds to that quarter from all over the world. Interest at the rate of 20 per cent. was at one time, in 1929, procurable for the use of short-term money for speculative purposes in New York. In an effort to check this flow of capital across the Atlantic, European bank rates rose<sup>3</sup> and thus further increased the stringency of credit in Europe.

Some impression can be gained of the recklessness of the New York stock market gamble if the following facts be considered.

At the end of September 1929, the outstanding loans of brokers had increased from \$3,300,000,000 in 1927 to \$8,500,000,000. In 1927 both "call" and "time" loans could be borrowed at 4 per cent.; in 1929 the respective rates were 15 per cent. to 20 per cent. for call loans and 9½ per cent. for time loans. The speculators endeavoured to secure credit from the banking system, and when the latter cut off supplies the market operators on Wall Street

<sup>1</sup> See Table I on p. 367.

<sup>2</sup> Figures are quoted in gold dollars for purposes of comparison.

<sup>3</sup> Too late. The Federal Reserve Bank was now raising its bank rate to try to control speculation, but it had lost control of the market, nor was its constitution capable of giving it the power enjoyed, for example, by the Bank of England.

turned to the large business companies and borrowed money from them. The business concerns refreshed their resources from the banks.

The prices of stocks rose prodigiously. The average price of stocks had already risen by about 80 per cent. between the spring of 1925 and the end of 1927; it increased by 25 per cent. during 1928 and by another 35 per cent. during the first nine months of 1929.

One popular share rose in value from \$40 to \$450; a rise unaccompanied by the payment of a single dividend. New issues of all kinds flooded the insatiable market on which professional operators were now reinforced by millions of avaricious amateur gamblers.

When the storm broke it was a tornado. There were some preliminary symptoms, but it was on October 24th that the rush to unload assumed gigantic proportions, when, to the accompaniment of a violent break in prices, over 12½ million shares changed hands. The market was now quite out of control, and on Tuesday, October 29th, a date likely to be long memorable to many Americans, prices collapsed to the accompaniment of the sale of 16½ million shares. It was twice as great as the largest day's trading ever recorded in the annals of Wall Street. The average decline of stock exchange values had been 40 per cent. in one month.

The collapse of the New York stock market sent a wave of apprehension round the world, a wave which both swamped such enterprise as still existed and exposed the weakness of the economic foundations upon which much of the post-War prosperity had been built up. It also converted into a rout the slow fall in agricultural prices which had already become apparent in the U.S.A. This mention of agricultural prices leads us back to the second warning signal which was mentioned at the beginning of this chapter, and that was the position in Australia.

In 1930 the external value of the Australian £1 had begun to fall. The situation of this British Dominion in 1930 was in a general way representative of that of all the overseas raw material producing countries, who had been long dependent for their development upon loans

from Europe or America, and upon their receipts from the sale to the industrial world of their products, such as wool, wheat, meat, hides, coffee, etc. By 1930 both these sources of revenue were severely curtailed; the first through the cessation of international lending, the second through the fall in the price level, and it was in vain that efforts were made by restriction schemes to control the overloaded markets of primary products.<sup>1</sup> The fall in revenue had taken place, but the burden of past debt remained and could only be met by exporting more produce, severely restricting imports (to the detriment of European and American industry) and painful national economies. The following table (I) illustrates this point. It is adapted from Table XII, p. 36, *The Course and Phases of the World Economic Depression*.<sup>2</sup>

TABLE I

Net Interest owed Abroad per Head of Population in Certain  
Agricultural Countries in £s in 1928

New Zealand . . . .	£5.7
Australia . . . .	5.6
Canada . . . .	4.5
Argentine . . . .	3.7
Union of South Africa . .	2.0

*Note.*—Comparable figures for Great Britain and the U.S.A. were plus £6 and plus £1.2 respectively, the plus sign indicating that this amount per head was owed to British and American citizens.

In the particular case of Australia, her people had endeavoured by tariffs and "advanced" social legislation to insulate themselves from the world in whose markets they had to sell their produce and thus enjoy a higher standard of living than was economically possible. There ensued a political struggle between Mr. Lang, the advocate of repudiation, and leaders of the more conservative parties; the latter won the day and Australia ultimately adjusted her economy to the low-tide levels of the slump.<sup>3</sup>

By 1931 the agricultural producers of the overseas countries were feeling the full force of the depression, and

<sup>1</sup> See Chapter XIII.

<sup>2</sup> League Publication, A 22, 1931, 11 A.

<sup>3</sup> For further particulars, see vol. II.

some of these countries were reacting to it economically and politically by defaults on government bonds and revolutionary changes of government, but the storm-centre of the slump had not yet reached Europe. The world financial system, wobbling on its fringes overseas, was still in being in New York, London, Paris and Berlin, though the situation was critical in Germany and Central Europe.

For six years (from 1924 to 1929) Germany had been borrowing on a large scale,<sup>1</sup> and this had permitted her to make reparation payments and import more than she exported. That portion of these loans which had not been used for reparation payments was employed partly in public works and partly in capital re-equipment. As we have already remarked, it is an accusation usually levelled at the German Republic that too great a proportion of this borrowed money was spent on social amenities of a non-productive nature—in the strict economic sense. There is some truth in this, but on the other side it must be remembered that if Germany had used all this money to re-equip herself for production, where and how was she to dispose of the resultant export surplus in a world which had turned its back on free trade?

When the international capital market collapsed in 1929 and the flow of money to Germany ceased, the Republic was faced with the same problem which had faced Australia and the other overseas countries. She had both to pay her way and continue to meet her old debts,<sup>2</sup> including reparations, out of the proceeds of her exports. During 1930, by drastic economies, the cutting down of imports and wages, Germany managed nearly to pay her way.<sup>3</sup> The Chancellor, Dr. Brüning, inflicted the most tremendous deflationary pressure upon Germany's economy, and it became a matter of anxious speculation abroad how long the political structure of the young and precariously established republic

<sup>1</sup> See Table in Chapter XIII. p. 368-9.

<sup>2</sup> Many of these were on short term, which meant that the capital value of the debt was liable to be recalled by its owners at short notice. It was estimated that German short-term borrowings between 1925 and 1930 totalled 11,000 million reichsmarks.

<sup>3</sup> She did pay her way if reparation payments are excluded.

would stand the strain of these ruthless economies and painful sacrifices upon the altars of orthodox finance.<sup>1</sup> For the time being the German Government reaped its reward in the shape of a surplus of merchandise exports over imports which in 1930 amounted to nearly 2000 million Reichmarks (£200 million). This surplus was, however, turned into a debit balance of 763 million R.m. (£76.3 million) when Reparation payments for 1930 and other debt payments are included, so that even after all her sacrifices she was still obliged to borrow abroad to achieve a balance for 1930.

It may be that the tremendous efforts made by Germany during 1930 to take a firm stand on balanced budgets would have sufficed to pull her through had she not simultaneously been subjected to the raging, tearing currents of the world crisis, but, as events turned out, her weakened economy was dealt a savage blow early in 1931.

The incident which precipitated a fresh and more thunderous development of the financial crisis was the failure on May 11th of the Rothschild controlled Credit-Anstalt Bank in Austria.<sup>2</sup> As an isolated episode this crash was of considerable but not unprecedented magnitude, but occurring in the setting of the economic crisis it produced disastrous consequences, just as the not unprecedented murder of a royal personage occurring in the political circumstances of 1914 produced the War.

Part of the cause for the failure of the Credit-Anstalt was the extremely difficult economic situation in which Vienna, a metropolis without a country, was left as a result of the Peace Treaties; some was due to bad management, but whatever the reason, this banking collapse was the overture to a series of startling events. The Austrian Government and the Rothschilds rushed to the rescue with credits, but the Austrian Government found itself in the position of succouring a drowning man whose struggles

<sup>1</sup> The rise of the Nazi party was one of the answers to these doubts.

<sup>2</sup> It was the largest bank in Austria and its liabilities and assets amounted to about 70 per cent. of the total of all Austrian banks. Its share capital and reserves were 177 million schillings (approximately £5 millions, at par). Its loans on December 31st, 1930 were 148 million schillings.

and dead weight are rapidly exhausting his rescuer. On June 16th, 1931, the Bank of England, true to the traditional British policy in time of crisis, advanced £4,300,000 to Austria and saved that country from complete collapse. For the moment the situation appeared to have been saved. In periods of financial crisis the essential is to gain time, for the whole of modern finance is, put crudely, nothing more than an elaborate confidence trick which depends for its success upon the *belief* of the public that the trick will work; and it does work so long as this belief exists. If panic begins, belief disappears, and the existence of immense aggregates of money tokens theoretically representing solid gold, much of which is non-existent, begins to take on the appearance of a dangerous absurdity. Therefore TIME is essential; time to allow of fears being calmed; time to allow of steps being taken to mobilize fresh credits and to persuade existing creditors that if they demand their pound of flesh they will only be destroying the whole body. It seemed as if the Bank of England had managed to buy time in which the Credit-Anstalt could be reorganized.

Unfortunately the troubles in Austria had caused investors to make a closer examination of the economic situation in Germany. What they saw was disquieting. They observed that a vast amount of long and short-term foreign money was invested in Germany, that Germany was being forced to try to pay Reparations and the interest on this debt when prices were falling; that German banks were interlocked with Austrian banks; that no new foreign money was going into Germany. The roundabout by which Germany had for several years paid old debts with new loans had creaked to a standstill.

Standstill! Ominous word! The Credit-Anstalt troubles had involved a standstill of foreign claims for two years. Supposing there was a smash in Germany, what would happen to the foreign loans in that country? Was it prudent at this time (June 1931<sup>1</sup>) to have funds locked up in Ger-

<sup>1</sup> On June 5th, 1931, the German Government issued a manifesto in which it declared that "the menaced business and financial position of the Reich calls imperatively for the alleviation of the unbearable reparations obligations."

many? These questions were considered round the tables at board meetings in New York and London, especially in New York, and to many financiers the prudent course seemed to be to reduce commitments in Germany. It was in one sense a short-sighted policy, for it aggravated the German weakness which it sought to discount, but in another sense it was the proper course to take according to the rules of capitalism. Banks and financial houses must remain liquid, that is to say they must have at their disposal *assets certainly and quickly realizable to a value at least equal to their liabilities*. With this principle in mind, foreign creditors began to withdraw their funds from Germany. The value of the German mark depreciated, and in the first fortnight of June the Reichsbank lost £36,000,000 of gold and gold-exchange security. In an attempt to support the mark and attract capital back to Berlin the German Central Bank raised its bank rate from 5 per cent. to 7 per cent. and did all it could legally to hamper the outward flow of funds. The raising of the bank rate—normally the recognized procedure on the part of a central bank which is losing gold—only seemed to convince creditors that the German position was indeed very critical and that they had better get their funds out of Germany whilst the going was good.

At this juncture a political crisis took place in Germany since the People's party, which included many of the big industrial magnates, joined with the National Socialist and the Communist parties, to demand that the Reichstag should be summoned,<sup>1</sup> and this would have meant the defeat of the Government. On June 19th the German Minister of Labour announced that the Government had only just succeeded in raising a short-term loan with the German banks in time to secure funds to pay the salaries of the German Civil Service. In a frenzy of apprehension the foreign creditors scrambled over each other in their efforts to withdraw funds from Germany. Within thirty-six hours the Reichsbank lost a further 150,000,000 R.m., and

<sup>1</sup> Dr. Bruening had been ruling Germany from March till October 1931 by decree and without the control of the Reichstag. In the end, Bruening managed to avoid summoning the Reichstag.

the cover for the note issue fell to a figure just above the legal minimum.

At this critical juncture, when a general default by Germany appeared inevitable, President Hoover made a startling and unexpected response to a personal appeal he had received from President Hindenburg, who reminded Mr. Hoover that :

“ You, Mr. President, as the representative of the great American people, are in a position to take the steps by which an immediate change in the situation threatening Germany could be brought about.”

On the evening of June 20th, the President of the United States, in a personal message to the heads of governments of the world, proposed that for a period of one year there should be a moratorium both of interest and principal on all inter-governmental payments. Once again a great effort has been made to gain time. The President's action was extremely courageous, for Congress was not in session and therefore he had to take the risk that this notoriously independent body would subsequently refuse to ratify his action. He endeavoured to avoid the fate of President Wilson by personal consultation with as many influential Congressmen as possible, in the few days between the 15th and 20th, with a view to obtaining their approval of the action he proposed to take.<sup>1</sup>

The Hoover Moratorium produced one great sigh of almost world-wide relief and one snarl of disgust. Great Britain, Italy, Germany and a number of other Powers hastened to accept the American proposal and to express their appreciation of the sacrifices the United States of America was making for the common cause in agreeing to forgo her war-debt receipts for a year. The British Government—at a cost to the revenue of Great Britain of £11,000,000—announced a British Empire moratorium of one year for Dominion war-debts payments to the United Kingdom.

<sup>1</sup> When Congress reassembled in November it grudgingly ratified the President's proposal.

But in the midst of this almost universal jubilate the voice of France struck a discordant note. The French politicians, press and public, with that unanimity which, since the War, has characterized French policy when matters affecting security, financial and political, are under discussion, declared that they had not been consulted in this matter, that the proposal demanded disproportionate sacrifices from the French tax-payer, and that Germany would take advantage of her respite from Reparations to steal a march upon her competitors in world trade. The French objections were important for two reasons. Firstly, it was a condition of President Hoover's plan that all nations should accept it without substantial qualifications; secondly, French co-operation was essential because of the strength of the French international financial position, due to her large stocks of gold and the great sums of French capital lying abroad on short-term—especially in London and New York. An acrimonious argument took place between France and the U.S.A., and it was not until July 6th that President Hoover was able to announce that his plan had been accepted. The delay had a fatal effect upon the success of the American proposal. Mr. Stimson, the American Secretary of State, had rightly said on June 22nd that an immediate and ungrudging acceptance of the plan was necessary if its "full tonic value" was to be realized. The delay caused by the French objections alarmed Germany's private creditors, and before the end of June the drain on Berlin had begun anew. A credit<sup>1</sup> of \$100,000,000 was hastily arranged by the Bank of International Settlements, the Bank of France, the Bank of England and the Federal Reserve Bank, but the demand on Berlin for foreign exchange continued and this credit was rapidly exhausted. On July 7th, in an effort to put some backbone into the German financial situation and give a rallying point to what remained of confidence, sixty of the leading concerns in the country guaranteed a fund of 500 million R.m. through the Gold

<sup>1</sup> Originally intended to help the Reichsbank with its end-of-month demands, this credit was supposed to expire on July 16th. It had to be renewed again and again.

Discount Bank. On July 3rd a fresh disaster had occurred. A great industrial concern, the North German Wool Combing Corporation (The Nordwolle) declared its insolvency with losses of 255 million reichsmarks (£12½ million). These losses were chiefly due to speculation in stock market securities. English banks were involved in the Nordwolle losses to the extent of £1¼ million, but the heaviest share of the damage fell upon a group of big German banks, especially the Danat (Darmstädter and National Bank) and the Dresdner Bank which were faced with losses of 35 million and 25 million R.m. respectively. Three other banks shared losses of 28 million R.m.

The visible extension of the strain to the private banks started an internal loss of confidence so that the German people, who up to now had stood these severe shocks with exemplary fortitude, began to "fly from the mark,"<sup>1</sup> and on July 9th and 10th the Reichsbank was called upon to supply 100 million reichsmarks' worth of foreign exchange.

On July 9th, Dr. Luther, the President of the Reichsbank, boarded an aeroplane at Berlin and flew to London in order to see whether the Bank of England could save the situation by giving a *long-term* credit to the Reichsbank. A conference took place between Mr. Montagu Norman and Dr. Luther in the boat-train from London to Dover. The German was making for Paris, for he had decided to be a Daniel in the lion's den and also address his plea for credits to the Bank of France, which meant, in effect, the French Government. Dr. Luther returned to Berlin empty-handed. Skilled observers noted that the British inability to assist the hard-pressed debtor in accordance with her customary policy was an ominous sign of the hitherto concealed weakness of the British position. In Paris, Dr. Luther was bluntly told that French support could be obtained if Germany would pay the political price.<sup>2</sup>

<sup>1</sup> It must be remembered that barely eight years had elapsed since the horrors of the 1923 inflation of the mark.

<sup>2</sup> Commonly reputed to be the abandonment of Germany's second pocket battleship and a guarantee to give up all efforts to bring about an Austro-German Union (The Anschluss).

On July 12th, the Banque de Genève, an important Central European institution, announced that it was insolvent. On that day—which was a Sunday—there was continuous consultation far into the night between the German Government, the Reichsbank and the private banks. The tension all over the world's financial system was very great, and it was clear that superhuman efforts were being made to avert a new disaster. On Monday, the 13th, the Bank for International Settlements announced that it would support German credit,<sup>1</sup> but this somewhat tepid pronouncement was completely overshadowed by the staggering news that the Danat Bank—one of the German Big Four—had failed with liabilities of 1500 million R.m. (£75 million), of which £23 million were owed abroad. There began an immediate run on the banks. It was the end of the post-War international financial system so far as Germany was concerned. The German Government grappled with this new disaster with great energy. It closed all private banks for two days, guaranteed the Danat losses, closed the stock exchanges and broadcast a moving appeal to the German nation to “keep its nerve.”

Meanwhile the gold cover of the German note issue having fallen to 35 per cent. (the legal minimum was 40 per cent.), the Reichsbank raised its discount rate from 7 per cent. to 10 per cent.

There followed a series of drastic decrees<sup>2</sup> whose general effect was to give the Government, through the Reichsbank, the most complete control over the foreign exchange situation and in fact the whole economic life of the country. Though still outwardly an example of a capitalist state energized by private enterprise, the German economy had now become, if not as state controlled as that of Russia, on a comparable basis with that of Italy. There were some further banking failures, but under the iron control of the Government the banks were cautiously allowed to resume restrictional operations. The harshness of the credit situation

<sup>1</sup> The statement was in general terms. It is understood that France was the obstacle to a more specific grant-in-aid.

<sup>2</sup> One decree inflicted a passport tax of £5 on any German citizen desiring to go abroad.

may be judged from the fact that on July 31st the Reichsbank raised its rate from 10 per cent. to 15 per cent.

This chapter may be fittingly concluded with a mention of the abortive London Conference which met at 6.30 p.m. on July 20th, 1931, in the Prime Minister's room in the House of Commons.

The business of the Conference was twofold. First to decide how to deal with the financial crisis in Germany and, secondly, how to re-establish her economic situation. Salvage work and reconstruction. There were at the Conference three Prime Ministers—MacDonald (United Kingdom), Bruening (Germany), and Laval (France); the Foreign Ministers of the United Kingdom, Germany, France, the U.S.A., Italy and Belgium; the Finance Ministers of the United Kingdom (Snowden), France, the U.S.A. and Italy. A formidable and impressive collection of statesmen reinforced by a powerful team of experts. The personnel was worthy of the occasion because, behind the façade of a conference brought together at extraordinarily short notice in order to deal with the financial crisis in Germany, lay the greater issue, the age-old struggle between France and her hereditary enemy across the Rhine which the men of 1925 hoped had been settled at Locarno. The elements of the problem were simple. Germany could only be restored to economic health by the grant of very substantial long-term credits. Great Britain, for reasons which will be apparent in the next chapter, was unable to be the banker; the Americans had had a bellyful of European investment and were chiefly concerned with saving the millions of dollars frozen up in Germany. There remained France. The world's financial system shook upon its golden throne as the Reichsmark withdrew from the high table of the gold standard,<sup>1</sup> but the franc still looked proudly out with steady and stable gaze upon its rivals, the £1 sterling and the dollar. Was it imagination or was the £1 no longer as strong as outward appearances suggested? Be this imagination or reality—

<sup>1</sup> Germany was no longer on an effective gold standard, since gold and gold exchange could by the terms of the decrees no longer be freely exported.

and there were curious rumours floating around as to the state of the British budgetary position—the brutal fact at the London Conference was that if Germany was to receive substantial credits they would have to be French in origin.

The French saw an opportunity—unique and far-reaching—of obtaining that political security which they so passionately desired. They would collaborate in the granting of a loan to Germany, but only on strict political conditions. The loan was to be secured on the German customs and an explicit promise extracted from Germany that there should be no treaty-revision for ten years—the suggested period of the loan.

The U.S.A., as did Great Britain, refused to co-operate in pressing these terms on Germany, and in any event it would have been impossible for Dr. Bruening to have returned to his people with \$500,000,000 as the wage paid by France for German political subservience.<sup>1</sup>

A deadlock ensued and the Conference broke up within three days, having only been able to agree to recommend to the various private institutions which had short-term funds immobilized in Germany that they should undertake to leave their funds there<sup>2</sup> whilst an expert committee, under the auspices of the B.I.S., examined the possibility of converting these short-term credits into long-term loans. This profoundly wise, if unoriginal, proposal was already in process of adoption by the aforementioned private concerns in London, New York, and elsewhere for the best of all reasons, viz. that there was no possible way of getting their money out of Germany, however much it might be needed at home, and, as we shall shortly see, some of it was soon to be badly needed in London.

In the words of the prophet Daniel, “Many shall run to and fro and knowledge shall be increased.”

Both immediately before and after the London Conference of 1931 there was much running to and fro of statesmen and bankers, and doubtless knowledge was

<sup>1</sup> Bruening received a telegram on July 21st from Hitler and the leaders of the Nazi opposition party, warning him that they would not recognize any agreement of the type demanded by France.

<sup>2</sup> This proposal eventually became the Standstill agreement.

increased, but what the world needed was constructive action to arrest the rapid decay of that painfully rebuilt post-War financial system of which Great Britain was the chief architect and artisan.

The Germans returned to Berlin convinced that henceforth salvation must be sought in self-sufficiency. The Nationalist Socialist Party (Nazis) felt that events had placed them one step nearer their goal, and on July 23rd—the day of dispersion of the London Conference—the Bank of England, sensing the coming tornado, raised the bank rate from  $2\frac{1}{2}$  per cent. to  $3\frac{1}{2}$  per cent. It was the opening note of the Grand Finale in the drama of the rise and fall of the post-War world financial system.

## CHAPTER XX

### DEATH OF THE GOLD POUND

"Others maintain that coined money is a mere sham, a thing not natural, but conventional only, which would have no value or use for any of the purposes of daily life if another commodity were substituted by the users."

ARISTOTLE, *Politics*.

"Humpty Dumpty sat on a wall,  
Humpty Dumpty had a great fall.  
All the King's horses and all the King's men  
Could not put Humpty together again."

*Nursery Rhyme.*

"A man may buy gold too dear."

From *A Compleat Collection of Proverbs*, published 1737.

IN surveying the successive stages of the tumbling-down of the structure of the international gold standard one is struck by the manner in which the forces of anarchy advanced methodically from the outer defences of the system towards the centre. It was a process analogous to that of the spider-wasp (*Pepsis mildei*) which destroys the Californian trap-door spider (*Bothriocyrtum Californicum*) by a horrible yet ingenious procedure. The Californian spider lives in an underground lair whose upper end is flush with the ground and closed by a trap-door. When sow-bugs and other nocturnal insects walk near the trap-door the spider feels the vibration of their passage, flings open the trap-door, seizes its victim, drags it underground and closes the door. But, should the footsteps of a spider-wasp be the cause of the exit a tragedy different in detail takes place. The wasp stings the spider and paralyses its limbs. The aggressor then enters the open nest and takes with it the helpless owner. At the bottom of the nest the wasp deposits an egg in the living spider. In due course the grub hatches out, burrows into the body of its host and feeds upon its tissues, but it takes care to leave intact such vital organs as the heart until such time as the grub is ready

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to spin its cocoon. Then, and only then, does the spider enter the peace of death.

The British monetary system had built itself deep nests in Lombard and Threadneedle Streets from which it emerged to snap up the passing loan. But, unrealized by its operators, the system had absorbed into its body since 1925 a number of loans which were to prove veritable spider-wasps.

At the critical juncture in the fortunes of the post-War monetary structure which arose in 1931, the Government of Great Britain was Socialist in name although in its practice it could hardly claim to be more than mildly radical. With Mr. Snowden at the Treasury it was unlikely that the canons of orthodox finance would be broken in the smallest degree. In fact, at the Hague Conference on Reparations in 1929<sup>1</sup> the Labour Government in general and Mr. Snowden (the Chancellor) in particular had shown their admiring countrymen and the world that British Socialists had nothing to learn from the Tory Party in the practice of the arts and crafts of nationalism and of twisting the foreigner's tail. Mr. Snowden was indeed made a Freeman of the City of London to the accompaniment of much flapping of the rudimentary wings of "The Penguins"—to use a contemptuous description of the London financiers invented by the less orthodox Liberal, Mr. Lloyd George.

Nevertheless the British financial position was regarded with suspicion by foreigners in general and the French in particular. Nor was it free from mistrust amongst our own countrymen. To quote an unimpeachable authority: "It may indeed be said that at no time since the termination of the historic disputes which followed the Napoleonic Wars, and which led to the passing of the Bank Act of 1844, has the monetary organization of our country been the subject of so much criticism as in recent times."<sup>2</sup>

On July 13th, the very day after the Darmstädter Bank closed its doors in Berlin, the Committee which had been appointed in 1929 by Mr. Snowden to inquire into banking, finance and credit presented its Report.

<sup>1</sup> See p. 341.

<sup>2</sup> *Macmillan Report on Finance and Industry*. Cmd. 3897, 1931, p. 6.

It is not, however, the Committee's recommendations on monetary policy which concern us here, but its analysis of the progressive weakening in Great Britain's financial position since the War. Attention was drawn to the rise of unemployment, heavy taxation and the diminishing volume of exports. In short, at a critical juncture in her history Great Britain, conscious that all was not well with her financial health, consulted the doctors, then published their diagnosis and suggested treatment to the world. The public gaze fastened on the diagnosis, and neglected to observe that the complaint, though serious, was not considered mortal.

On July 15th £3 million of gold, and on July 16th £5 million were withdrawn from the Bank of England. By the end of the month the Bank had lost nearly £45 million of gold. Some of the withdrawal—most of which was due to the repatriation of French balances—was seasonal, but much of it was for other reasons. How far "politics" entered into those "other reasons" is a question to which no one can give an exact answer. On July 28th the London money market was obliged to admit its inability to participate in an international loan of £7 million to Hungary. On July 30th the Bank of England raised its rate to 4 per cent.

On July 31st—a day upon which the Bank of England actually gained gold—there was published a report by another committee which the Government had set up to consider the state of the public finances. It was under the chairmanship of Sir George May, K.B.E. The Committee's statement produced a world sensation of the first order, and its publication, unaccompanied by any statement of Government policy by way of explanation, produced consequences destined to be fatal to the gold £1. The Committee estimated that if the existing rates of expenditure and revenue were to be maintained the Budget for 1932 would close with a deficit of nearly £120 million.<sup>1</sup>

Sensation followed sensation. The British public were

<sup>1</sup> This included allowance for the Sinking Fund. A minority report disagreed with the gloomy diagnosis in the main document.

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still learning with astonishment that their Treasury was heading for financial disaster when they were greeted with the information on August 1st that "The Bank of France and the Federal Reserve Bank of New York have each placed at the disposal of the Bank of England a credit in their respective currencies for the equivalent of £25 million, making a total equivalent of £50 million."

It was also announced that the Treasury had authorized an increase of the fiduciary issue of £15 million (making £275 million in all) for a period of three weeks.

Since July 8th the Bank of England had lost £32 million of gold and the reserve had fallen to £133 million.<sup>1</sup>

During the first three weeks of the month of August the British Cabinet anxiously examined the financial position and reached the decision that the Budget must be balanced and that the "principle of equality of sacrifice" must govern the economies to be made.

A scheme of economies was drawn up and submitted to the opposition political parties and to the General Council of the Trades Union Congress on whose membership the Labour Government was greatly dependent for political support. The scheme included a 10 per cent. cut in unemployment benefit, and this proposal split the Cabinet. His Majesty the King returned to London on August 23rd. On the 24th the Labour Cabinet resigned. His Majesty then exercised his prerogative by inviting Mr. Ramsay MacDonald to form a National Government to deal with the crisis. Mr. Baldwin (leader of the Conservative Party) and others of the Party, together with Sir Herbert Samuel (a Liberal leader) and other Liberals accepted office. The members of the late Cabinet, with the exception of Lord Sankey, Mr. Snowden and Mr. Thomas, went into opposition.

The new Government announced on August 28th that "for the purpose of strengthening still further the exchange position of sterling" the Treasury had arranged for new credits in Paris and New York to a total of £80 million.

<sup>1</sup> The gold reserves of the Bank of France on July 31st totalled £486,730,000 giving a gold cover of 56 per cent.

It was by this time common knowledge that the previous £50 million had already been almost exhausted. It was—and still is—a matter of acute controversy as to whether the grant of the £80 million was contingent upon the British Government effecting “financial reforms.”<sup>1</sup>

On September 10th Mr. Snowden introduced a supplementary Budget in the House of Commons. On the 9th, the Government by 309 votes to 250 had received authorization to effect economies of £70 million by Orders in Council.

The supplementary Budget was estimated to produce a small surplus for 1931–32 and 1932–33. This was to be achieved by increase of taxation and by economies; it included provision for a sinking fund and the payment out of revenue of expenses connected with the relief of unemployment which had hitherto been met by borrowing. On September 15th the House of Commons adopted the Budget resolutions, but on the same day news reached London the like of which had not startled the public since 1797.<sup>2</sup> It was stated that there had been unrest in the ships of the Atlantic Fleet, then exercising from Invergordon in Scotland. The trouble was due to dissatisfaction amongst the ratings with the cuts of 10 per cent. in their rates of pay which was part of the economy scheme. These cuts bore very hardly on the younger married men, who saw themselves getting into debt in connection with houses and furniture they were buying on the hire-purchase system. As a matter of historical interest it is worth noting that the mutiny, which consisted in a refusal on the part of the ships' companies to obey orders and put to sea, would probably never have occurred had the senior officers of the Atlantic Fleet taken care to explain to the men the nature of the national crisis and the need in the opinion of the Government for a sacrifice on the part of all members of the community from the unemployed man to the Cabinet Minister and the super-tax payer. The personnel of the Atlantic Fleet formed but a portion, and not the

<sup>1</sup> Understood to be cuts in the rate of unemployment pay.

<sup>2</sup> When the Fleet mutinied at the Nore.

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larger portion, of the British navy, and there was no trouble in the large Mediterranean Fleet, in China, or at any of the home ports where many thousands of men were congregated in barracks and shore establishments. It is significant that in these last-mentioned places the Admiralty Order announcing the cuts in pay was accompanied by an explanatory statement.<sup>1</sup> The psychological effect, both at home and abroad, of this news from the world-famous British navy "whereon, under the good Providence of God, the wealth, safety and strength of the kingdom chiefly depend,"<sup>2</sup> was tremendous. The foreigners imagined that the end of Great Britain was at hand, and it is within the knowledge of the writer that a French banker telephoned to London to know if it was true that the British fleet was bombarding the South Coast resorts! There was something resembling a financial panic amongst foreign holders of sterling, and immense withdrawals took place which rapidly threatened to absorb all the newly granted credits. On Friday, September 18th, The Bank lost upwards of £18 million. A last attempt to raise credits in New York and Paris was contemplated and inquiries were made. The replies were kindly but not encouraging. On Saturday withdrawals continued with flood violence and The Bank reported that it was practically at the end of its resources. On Sunday afternoon the editors of the principal newspapers were summoned to attend at No. 10 Downing Street and warned that next day the Government proposed to suspend the operation of the gold standard. On Monday, 21st, the bank rate was raised to 6 per cent., the Stock Exchange was closed for two days and the Treasury issued the following statement :

"His Majesty's Government have decided, after consultation with the Bank of England, that it has become necessary to suspend for the time being the operation of Subsection (2) of Section 1 of the Gold Standard Act of 1925, which requires the Bank to sell gold at a fixed price.

<sup>1</sup> It is said that the official "explanation" destined for the Atlantic Fleet was sent to the wrong address. Upon such small incidents do great events turn.

<sup>2</sup> Introduction to the Articles of War.

A Bill for this purpose will be introduced immediately, and it is the intention of His Majesty's Government to ask Parliament to pass it through all its stages on Monday, September 21. In the meantime the Bank of England have been authorized to proceed accordingly in anticipation of the action of Parliament."

Thus the British Government took a step which the Macmillan Committee had considered unthinkable. Concerning the possibility of devaluing the £1, it had reported: "It would be to adopt an entirely new principle, and one which would be an immense shock to the international financial world, if the Government of the greatest creditor nation were deliberately, and by an act of positive policy, to announce one morning that it had reduced by law the value of its currency from the par at which it was standing to some lower value."<sup>1</sup>

It is interesting in this connection to compare Mr. Ramsay MacDonald's broadcast statement on August 25th in which he said:

"If there were any collapse in the £1 we should be defaulting on our obligations to the rest of the world and our credit would be gone"

with the statement made by Mr. Snowden in the House of Commons on September 21st, in which he said:

"Our action no doubt will have wide repercussions and increase the dislocation and instability for the time being of international trade and finance, but at the same time there is no need to exaggerate the difficulty. It may be that the present crisis will pave the way to better international co-operation."

The facts of the matter may be tersely summed up in the words of the Prime Minister's Manifesto on October 7th: "The present National Government was formed in haste to meet a swiftly approaching crisis. . . . World conditions and internal financial weakness, however, made

<sup>1</sup> *Macmillan Report*, p. 111.

## *Death of the Gold Pound*

it impossible for the Government to achieve its immediate object. Sterling came off gold."

The suspension of the gold standard by Great Britain at a moment when—as the foreign investor bitterly observed—her discount rate was only  $4\frac{1}{2}$  per cent.<sup>1</sup> staggered a world which by this time believed itself to be sensation-proof. All the European stock exchanges, except Paris, Milan and Prague, closed at once, so did the Tokio Exchange. Within the next few days all financial centres, except Norway and Sweden, restricted credit by raising their bank rates in order to protect their gold reserves. In quick succession a number of countries abandoned the gold standard<sup>2</sup>—such action being inevitable in the case of countries such as Denmark, which relied for their existence upon the British market. Many persons and institutions suffered heavily through the depreciation of the £1, which fell to about 80 per cent. of its gold value. The Bank of France—and this must be remembered to its credit by those who claim that French financial policy was in fact responsible for the attack on the £1—held over £60 million in sterling, and the French Government had to guarantee the losses incurred by the depreciation of these funds. The Netherlands Bank held part of its reserves in London and tried in vain to persuade the Bank of England to compensate it for its losses when sterling depreciated.<sup>3</sup> The Bank of Greece held 25 per cent. of its reserve in London and suffered heavy losses. The sterling-dollar rate fell to \$3.23 by December 1931. Another immediate consequence of the depreciation of the £1 was the imposition of "anti-dumping"

<sup>1</sup> It was raised to 6 per cent. after the suspension of gold payments. The oft-repeated accusation made abroad that Great Britain had abandoned gold prematurely and should have raised her discount rate to 8 or 10 per cent. was not justified. Experience had already shown (in Germany) that in abnormal times drastic increases of the discount rate only served to alarm investors and did not attract their funds.

<sup>2</sup> Norway, Sweden, Greece, Egypt, Finland, Rhodesia, Canada, Japan.

<sup>3</sup> It is reported that about a week before Great Britain left the gold standard the Netherlands Bank addressed an inquiry on this subject to the Bank of England and received an assurance that Great Britain would certainly stay on gold. If this story is true—as I believe it to be—there is no need to impute deceit to the Bank. The authorities—strange as it may seem—really believed that Great Britain could stay on gold; in fact the first National Government was formed to keep the £1 on gold.

duties against "cheap" British goods. Canada, South Africa, France and Italy were among the early exponents of this policy. Other effects of the sterling crisis were banking troubles in France and a recrudescence of such trouble in Germany, and a vast extension of exchange restrictions. It would be impossible to catalogue here the further confused details of the collapse of the world's financial system now that the British £1 had failed in its duty as the keystone of the gold-standard arch which, for a few years from 1927 to 1931, had once more spanned the world. It must be sufficient to note that the next country to feel the full weight of the forces of financial disintegration was to be the U.S.A.—but that story must await Volume II. Why did the £1 collapse? Many and varied have been the answers to this question. It has been said that the villain of the piece was France; that "The City" had borrowed money on short term from abroad and re-lent it for long periods, especially to Germany, so that when the stresses and strains of the world crisis caused lenders to recall their loans to London, the latter, being unable in its turn to recall its loans, was between the devil and the deep sea; it has been said that the "Balance of Trade" of the United Kingdom was adverse and that our troubles arose from the cumulative evils of buying abroad more than we could afford to pay for. The majority report of the May Committee insisted that we were proceeding down the primrose path of ruinous domestic finances.

These were some of the explanations which quickly became the sport of party politics, since on October 7th the Prime Minister was granted a dissolution by His Majesty the King, and a general election took place on October 27th at which the Conservative-Liberal Coalition, plus a few of the personal followers of Mr. MacDonald, went to the country as supporters of the National Government. They won a resounding electoral victory,<sup>1</sup> for in the new House of Commons the National group held 554 seats, of

<sup>1</sup> Some very remarkable statements were made during this election by Cabinet Ministers, ecclesiastics and other public men. A study of the files of a daily newspaper of this time is instructive as an example of the effects of panic on the public mind.

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which 471 were Conservative, whilst the official Opposition, in the shape of the Labour Party, could only muster 52 supporters, of whom the veteran George Lansbury (who had been in charge of the Office of Works) found himself the leader. The National leaders had asked for a "doctor's mandate," to take whatever action might be necessary to restore Great Britain's financial and commercial position. The Liberals had mostly stood as Free Traders, but any elector who believed in the importance of Free Trade and voted for a National candidate was indeed a credulous person, since it was clear that with the Conservatives in power tariffs were a foregone conclusion.

To return to the various explanations given for the collapse of the British £1. The report of the May Committee, with its estimate of a deficit of £120 million, undoubtedly caused a great sensation and contributed to a general feeling that Great Britain was on the edge of bankruptcy. The alarm was accentuated by the news of the mutiny of the Atlantic Fleet at Invergordon. The writer of this book, having reached the conclusion about 1930 that in view of the international economic situation it would be expedient for Great Britain temporarily to abandon the gold standard, has often reflected upon the strange combination of circumstances which caused the Royal Navy to be used by a far-seeing Providence as the unconscious means of changing British financial policy and so releasing the nation from the onerous terms of the contract of 1925 when the £1 was restored to gold at pre-War parity. In 1805 the Navy saved the nation at Trafalgar; it may be that at Invergordon it achieved a like feat. *Autres temps, autres mœurs*—but there are better ways of changing one's financial policy than by doing it as a consequence of insubordination in the fighting forces. As regards the May Report, it was an act of great political foolishness on the part of the Socialist Cabinet to publish the Report without—at the same time—drawing the attention of the public to the fact that the "estimated deficit" included provision for a sinking fund of £50 million! Sinking funds are not quite so sacred as all that.

As a matter of fact, the British budgetary outlook in 1931 compared extraordinarily favourably with that of every country in the world. For example, the French, with a budget two-fifths the size of Great Britain, had a deficit of £20 million; the U.S.A. deficit for 1930-31 was £186 million and estimated at £400 million for 1931-32. And, as we have seen, the Budget was balanced at the moment when the £1 left gold. Two years later some of those who in 1931 had been the most vocal advocates of a balanced budget were pleading for large-scale government borrowing for public works!

What of the adverse so-called balance of trade? <sup>1</sup> Of all arguments this was the most distorted for political reasons, for it was a favourite peg on which to hang a demand for tariffs. For decades Great Britain had imported a greater value of commodities than the value of her commodity exports, and this had been a sign of her position as a creditor country, the debit balance of her visible exports and imports being more than compensated for by her credit balance on her invisible exports and imports. The figures of the net balance of trade of the United Kingdom for the years 1926 to 1932 are shown in the table opposite.

It should be quite unnecessary to point out that the prevalent desire of all nations to have a "favourable" visible balance of trade is an absurdity. Clearly it is impossible for the aggregate of sales in a market to exceed the aggregate of purchases except in so far as the sellers are prepared to extend credit to buyers. There was nothing exceptionally alarming in the British trade position in 1931. Her commerce had been passing through difficult times ever since she had returned to the gold standard in 1925 at a pre-War parity which left her with costs of production which were high relatively to world costs, and the growing restriction of international trade had especially affected the United Kingdom with its dependence on exports and shipping receipts, but these were phenomena which were not particularly prominent in 1931. What of the British loans abroad—especially to Germany? In July 1931 Great

<sup>1</sup> The expression should be "Balance of payments on foreign accounts."

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## BALANCES OF INCOME AND EXPENDITURE IN THE TRANSACTIONS (OTHER THAN LENDING AND REPAYMENT OF CAPITAL) BETWEEN THE UNITED KINGDOM AND ALL OTHER COUNTRIES

<i>Particulars</i>	£ (000,000's)					
	1926	1927	1928	1929	1930	1931
Excess of imports of merchandise, including silver coin and bullion . . . . .	463	387	353	381	386	408
Estimated excess of Government receipts from overseas <sup>1</sup> . . . . .	4	1	15	24	19	14
Estimated net national shipping income <sup>3</sup> . . . . .	120	140	130	130	105	80
Estimated net income from overseas investments . . . . .	250	250	250	250	220	170
Estimated net receipts from short interest and commissions . . . . .	60	63	65	65	55	30
Estimated net receipts from other sources . . . . .	15	15	15	15	15	10
Total . . . . .	449	469	475	484	414	304
Estimated credit (+) or debit (—) balance on account of goods, services and Government capital transactions . . . . .	- 14	+ 82	+ 122	+ 103	+ 28	- 104
Excess of exports (+) or imports (—) of gold . . . . .	- 12	- 3	- 5	+ 15	- 5	+ 35
Estimated credit (+) or debit (—) balance on all items specified above . . . . .	- 26	+ 79	+ 117	+ 118	+ 23	- 69
New overseas issue on London market in year <sup>4</sup> . . . . .	112	139	143	94	109	46
						29

<sup>1</sup> These include some items on loan accounts.  
<sup>3</sup> Including disbursements of foreign ships in British ports.  
<sup>4</sup> This item, not being part of the balance as compiled, is not shown in the body of the table by the *Board of Trade Journal*. It is shown above for reference.

Britain had lent £54 million<sup>1</sup> on long term and £100 million on short term to Germany, and about £50 million on short term in various European countries. As regards her general creditor position it should be remembered that the United Kingdom held foreign investments which were estimated at £3700 million in 1931—a fall of only £38 million since 1929. The annual income derived from these investments was £230 million in 1929; £152·6 million in 1932.<sup>2</sup> (Revised figures, 1934.)

There is, in the opinion of some of the best expert authorities with whom the present writer has discussed this question, no substance in the charge that British lending abroad had been imprudent in reasonably normal circumstances, bearing in mind the necessity for London to retain its position as the world's money market. But circumstances were not "normal." The London money market should have foreseen the crisis in Germany which immobilized British funds, and cannot escape the charge of financial negligence by pleading that if they suspected its advent they forbore to aggravate and precipitate the crisis by recalling their funds. London lent too much to wasteful borrowers, especially in South America, and cannot be excused by the fact that New York did the same thing to greater excess. A first-class money market should know when to turn the tap *off* as well as when to turn it *on*.

The accusation of French malevolence seems to be answered to a large extent by the fact that when Great Britain left the gold standard the Bank of France still held over £60 million in London upon which it lost £17 million.

To sum up. It would appear that "the crisis" in Great Britain was in reality like the housemaid's famous baby—"a very little one"—and certainly in no way comparable to the first-class crisis which had occurred in Germany and was to occur in the U.S.A., but it is certain that in the disturbed state of the financial world in 1931 the foreigners sincerely believed that there was a great crisis in Britain,

<sup>1</sup> Including £24 million of Reparation loans (Dawes and Young), £10 million to local governments and £20 million to German commerce.

<sup>2</sup> £54 million from British banks to German banks; £25 million to German industry and commerce.

## *Death of the Gold Pound*

and it is always what men believe, rather than what is, which governs events, and so a real financial crisis arose on a psychological basis. There was, of course, some foundation for the widespread belief that Great Britain was in serious difficulties, and, in the opinion of the writer, the chief cause of such British difficulties as existed in fact was her return to the gold standard at its pre-War parity, with the consequent continual strain on her gold reserves and permanent hard core of unemployment due largely to the high costs of her goods in the world market. In 1925 Great Britain bit off more than she proved capable of chewing.

Returning for a moment to the housemaid's baby, small though it was, there was presumedly general agreement that it should not have been born at all. Need the British financial crisis have occurred had the Socialist Government handled the situation somewhat differently? The most ironical feature of the whole business was the spectacle of a self-styled Socialist Cabinet struggling to save from disaster the capitalist system which for many years Socialists had declared was inefficient, obsolete and doomed to collapse. In the critical weeks of the summer of 1931 the British Government could have been one of two things—either Capitalist and Conservative, or Socialist and Labour—in its outlook and action. It could have, in the name of patriotism and conservatism, mobilized British investments abroad, suspended the sinking fund, protected British agriculture, increased the income tax, reduced the interest on government debt by a semi-compulsory heavily propagandered conversion loan—and so convinced the world that a “strong” government of the right was in power. It could also have done all these things in the name of patriotism and socialism and shown the world that a “strong” government of the “left” was in power. What it should not have done but did do was to try to be evolutionary and normal when events were crowding upon it which clearly called for rapid and drastic action. The first business of a government is to govern, and when the people begin to suspect—rightly or wrongly—that the material framework of their society is disintegrating or

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menaced they are not over particular at that moment as to what is done, provided they observe that the government has a policy and intends to carry it out. Later on the reaction takes place, and if the government wishes to remain in power it must then steal its opponent's policy.

The Socialist Party in Great Britain went out into the wilderness, from whence they were obliged to observe Mr. Walter Elliot, in a "Conservative" National Government, introducing British agriculture to Socialism. The debacle of the British Socialist Party in 1931 will have been beneficial to the cause of Socialism if it teaches that Party the lesson that the first business of a Socialist in office is to be a Socialist.

The death from exhaustion in 1931 of the Gold Pound marked the *de facto* end of the nineteenth century. The British attempt during the post-War years to restore the principles and practices of commerce and finance by which they had become great was an attempt to rebuild their castle upon the shifting sands of the second industrial revolution. For a moment the British were in confusion whilst across the Channel France surveyed a Continent which seemed to lie at her feet. Her military strength was superior to that of every rival, and Germany was in confusion. Her immense reserves of gold were second only to those of the U.S.A. She was still virtually untouched by the world crisis.

But with a rapidity which gratified their friends and astonished their enemies the islanders readjusted their policies to the changed circumstances. They marshalled their forces for a flank attack upon the strongholds of economic nationalism. Their action was like that adopted by Lenin when he launched his New Economic Policy. He embraced private enterprise in order to choke it to death; the British announced that they were taking economic nationalism into their arms for a similar deadly purpose. A cynic might have warned them that a new mistress is usually easier to acquire than to discard. We shall see in the next volume how during the closing years of Our Own Times the British prepared themselves to re-assume a position of world leadership in the socialized world of the Times to Come.

END OF VOLUME I

Vol II Chapter 7 - The U.S.A. returns

and

Part XII - Economic relations, 1931-34

# APPENDICES

## APPENDIX I

### (a) THE COVENANT<sup>1</sup> OF THE LEAGUE OF NATIONS

#### THE PREAMBLE

"The High Contracting Parties,

"In order to promote international co-operation and to achieve international peace and security ;

"By the acceptance of obligations not to resort to war ;

"By the prescription of open, just, and honourable relations between nations ;

"By the firm establishment of the understandings of international law as the actual rule of conduct among Governments :

"And by the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organised peoples with one another ;

"Agree to this Covenant of the League of Nations."

#### ARTICLE I (MEMBERSHIP)

1. The original Members of the League of Nations shall be those of the Signatories which are named in the Annex to this Covenant and also such of those other States named in the Annex as shall accede without reservation to this Covenant. Such accession shall be effected by a Declaration deposited with the Secretariat within two months of the coming into force of the Covenant. Notice thereof shall be sent to all other Members of the League.

2. Any fully self-governing State, Dominion, or Colony not named in the Annex may become a Member of the League if its admission is agreed to by two-thirds of the Assembly, provided that it shall give effective guarantees of its sincere intention to observe its international obligations, and shall accept such regulations as may be prescribed by the League in regard to its military, naval, and air forces and armaments.

3. Any Member of the League may, after two years' notice of its intention so to do, withdraw from the League, provided that all its

<sup>1</sup> The Covenant of the League constitutes Part I of the Treaties of Peace between the Allied and Associated Powers and Germany (June 28th, 1919), Austria (September 10th, 1919), Bulgaria (November 27th, 1919), Hungary (June 4th, 1920) (amendments to the original Covenant are printed in italics).

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international obligations and all its obligations under this Covenant shall have been fulfilled at the time of its withdrawal.

### ARTICLE 2 (EXECUTIVE MACHINERY)

The action of the League under this Covenant shall be effected through the instrumentality of an Assembly and of a Council, with a permanent Secretariat.

### ARTICLE 3 (ASSEMBLY)

1. The Assembly shall consist of Representatives of the Members of the League.

2. The Assembly shall meet at stated intervals and from time to time as occasion may require at the Seat of the League or at such other place as may be decided upon.

3. The Assembly may deal at its meetings with any matter within the sphere of action of the League or affecting the peace of the world.

4. At meetings of the Assembly each Member of the League shall have one vote, and may have not more than three Representatives.

### ARTICLE 4 (COUNCIL)

1. The Council shall consist of Representatives of the Principal Allied and Associated Powers,<sup>1</sup> together with Representatives of four other Members of the League. These four Members of the League shall be selected by the Assembly from time to time in its discretion. Until the appointment of the Representatives of the four Members of the League first selected by the Assembly, Representatives of Belgium, Brazil, Spain, and Greece shall be members of the Council.

2. With the approval of the majority of the Assembly, the Council may name additional Members of the League whose Representatives shall always be members of the Council<sup>2</sup>; the Council with like approval may increase the number of Members of the League to be selected by the Assembly for representation on the Council.<sup>3</sup>

*2 bis.<sup>4</sup> The Assembly shall fix by a two-thirds majority the rules dealing with the election of the non-permanent members of the Council, and particularly such regulations as relate to their term of office and conditions of re-eligibility.*

<sup>1</sup> The Principal Allied and Associated Powers are the following: the United States of America, the British Empire, France, Italy, and Japan (see Preamble of the Peace Treaty with Germany).

<sup>2</sup> In virtue of this paragraph of the Covenant, Germany was nominated as a Permanent Member of the Council on September 8th, 1926.

<sup>3</sup> The number of Members of the Council selected by the Assembly was increased to six instead of four by virtue of a resolution adopted by the Third Assembly on September 25th, 1922. By a resolution taken by the Assembly on September 8th, 1926, the number of members of the Council selected by the Assembly was increased to nine.

<sup>4</sup> This Amendment came into force July 29th, 1926.

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3. The Council shall meet from time to time as occasion may require, and at least once a year, at the Seat of the League, or at such other place as may be decided upon.

4. The Council may deal at its meeting with any matter within the sphere of action of the League or affecting the peace of the world.

5. Any Member of the League not represented on the Council shall be invited to send a Representative to sit as a Member at any meeting of the Council during the consideration of matters specially affecting the interests of that Member of the League.

6. At meetings of the Council, each Member of the League represented on the Council shall have one vote, and may have not more than one Representative.

### ARTICLE 5 (VOTING AND PROCEDURE)

1. Except where otherwise expressly provided in this Covenant or by the terms of the present Treaty, decisions at any meeting of the Assembly or of the Council shall require the agreement of all the Members of the League represented at the meeting.

2. All matters of procedure at meetings of the Assembly or of the Council, including the appointment of Committees to investigate particular matters, shall be regulated by the Assembly or by the Council and may be decided by a majority of the Members of the League represented at the meeting.

3. The first meeting of the Assembly and the first meeting of the Council shall be summoned by the President of the United States of America.

### ARTICLE 6 (SECRETARIAT)

1. The permanent Secretariat shall be established at the Seat of the League. The Secretariat shall comprise a Secretary-General and such secretaries and staff as may be required.

2. The first Secretary-General shall be the person named in the Annex; thereafter the Secretary-General shall be appointed by the Council with the approval of the majority of the Assembly.

3. The secretaries and staff of the Secretariat shall be appointed by the Secretary-General with the approval of the Council.

4. The Secretary-General shall act in that capacity at all meetings of the Assembly and of the Council.

5. *The expenses of the League shall be borne by the Members of the League in the proportion decided by the Assembly.*<sup>1</sup>

<sup>1</sup> This Amendment came into force on August 13th, 1924; the paragraph originally ran: "The expenses of the Secretariat shall be borne by the Members of the League in accordance with the apportionment of the expenses of the International Bureau of the Universal Postal Union."

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### ARTICLE 7 (SEAT. QUALIFICATIONS FOR OFFICIALS. IMMUNITIES)

1. The Seat of the League is established at Geneva.
2. The Council may at any time decide that the Seat of the League shall be established elsewhere.
3. All positions under or in connection with the League, including the Secretariat, shall be open equally to men and women.
4. Representatives of the Members of the League and officials of the League when engaged on the business of the League shall enjoy diplomatic privileges and immunities.
5. The buildings and other property occupied by the League or its officials or by Representatives attending its meetings shall be inviolable.

### ARTICLE 8 (REDUCTION OF ARMAMENTS)

1. The Members of the League recognise that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations.
2. The Council, taking account of the geographical situation and circumstances of each State, shall formulate plans for such reduction for the consideration and action of the several Governments.
3. Such plans shall be subject to reconsideration and revision at least every ten years.
4. After these plans shall have been adopted by the several Governments, the limits of armaments therein fixed shall not be exceeded without the concurrence of the Council.
5. The Members of the League agree that the manufacture by private enterprise of munitions and implements of war is open to grave objections. The Council shall advise how the evil effects attendant upon such manufacture can be prevented, due regard being had to the necessities of those Members of the League which are not able to manufacture the munitions and implements of war necessary for their safety.
6. The Members of the League undertake to interchange full and frank information as to the scale of their armaments, their military, naval, and air programmes and the condition of such of their industries as are adaptable to warlike purposes.

### ARTICLE 9 (PERMANENT MILITARY COMMISSION)

A permanent Commission shall be constituted to advise the Council on the execution of the provisions of Arts. 1 and 8 and on military, naval, and air questions generally.

### ARTICLE 10 (GUARANTEES AGAINST AGGRESSION)

The Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political

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independence of all Members of the League. In case of any such aggression or in case of any threat or danger of such aggression the Council shall advise upon the means by which this obligation shall be fulfilled.

### ARTICLE II (ACTION IN CASE OF WAR OR DANGER OF WAR)

1. Any war or threat of war, whether immediately affecting any of the Members of the League or not, is hereby declared a matter of concern to the whole League, and the League shall take any action that may be deemed wise and effectual to safeguard the peace of nations. In case any such emergency should arise the Secretary-General shall on the request of any Member of the League forthwith summon a meeting of the Council.

2. It is also declared to be the friendly right of each Member of the League to bring to the attention of the Assembly or of the Council any circumstance whatever affecting international relations which threatens to disturb international peace or the good understanding between nations upon which peace depends.

### ARTICLE 12 (DISPUTES TO BE SUBMITTED TO ARBITRATION OR INQUIRY) <sup>1</sup>

1. The Members of the League agree that, if there should arise between them any dispute likely to lead to a rupture, they will submit the matter either to arbitration *or judicial settlement* or to inquiry by the Council and they agree in no case to resort to war until three months after the award by the arbitrators *or the judicial decision*, or the report by the Council.

2. In any case under this Article, the award of the arbitrators *or the judicial decision* shall be made within a reasonable time, and the report of the Council shall be made within six months after the submission of the dispute.

### ARTICLE 13 (ARBITRATION OF DISPUTES) <sup>1</sup>

1. The Members of the League agree that, whenever any dispute shall arise between them which they recognise to be suitable for submission to arbitration *or judicial settlement*, and which cannot be satisfactorily settled by diplomacy, they will submit the whole subject-matter to arbitration *or judicial settlement*.

2. Disputes as to the interpretation of a treaty, as to any question of international law, as to the existence of any fact which, if established, would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration *or judicial settlement*.

3. *For the consideration of any such dispute, the court to which the case is referred shall be the Permanent Court of International Justice, established in*

<sup>1</sup> The Amendments in italics came into force on September 26th, 1924.

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*accordance with Article 14, or any tribunal agreed on by the parties to the dispute or stipulated in any convention existing between them.*

4. The Members of the League agree that they will carry out in full good faith any award or decision that may be rendered, and that they will not resort to war against any Member of the League that complies therewith. In the event of any failure to carry out such an award or decision, the Council shall propose what steps should be taken to give effect thereto.

### ARTICLE 14 (PERMANENT COURT OF INTERNATIONAL JUSTICE)

The Council shall formulate and submit to the Members of the League for adoption plans for the establishment of a Permanent Court of International Justice. The Court shall be competent to hear and determine any dispute of an international character which the parties thereto submit to it. The Court may also give an advisory opinion upon any dispute or question referred to it by the Council or by the Assembly.

### ARTICLE 15 (DISPUTES NOT SUBMITTED TO ARBITRATION) <sup>1</sup>

1. If there should arise between Members of the League any dispute likely to lead to a rupture, which is not submitted to arbitration or *judicial settlement* in accordance with Article 13, the Members of the League agree that they will submit the matter to the Council. Any party to the dispute may effect such submission by giving notice of the existence of the dispute to the Secretary-General, who will make all necessary arrangements for a full investigation and consideration thereof.

2. For this purpose the parties to the dispute will communicate to the Secretary-General, as promptly as possible, statements of their case, with all the relevant facts and papers, and the Council may forthwith direct the publication thereof.

3. The Council shall endeavour to effect a settlement of the dispute, and if such efforts are successful, a statement shall be made public giving such facts and explanations regarding the dispute and the terms of settlement thereof as the Council may deem appropriate.

4. If the dispute is not thus settled, the Council either unanimously or by a majority vote shall make and publish a report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto.

5. Any Member of the League represented on the Council may make public a statement of the facts of the dispute and of its conclusions regarding the same.

6. If a report by the Council is unanimously agreed to by the members thereof other than the Representatives of one or more of the parties to the dispute, the Members of the League agree that they will not go to

<sup>1</sup> The Amendments in italics came into force on September 16th, 1924.

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war with any party to the dispute which complies with the recommendations of the report.

7. If the Council fails to reach a report which is unanimously agreed to by the members thereof, other than the Representatives of one or more of the parties to the dispute, the Members of the League reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice.

8. If the dispute between the parties is claimed by one of them, and is found by the Council to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the Council shall so report, and shall make no recommendation as to its settlement.

9. The Council may in any case under this Article refer the dispute to the Assembly. The dispute shall be so referred at the request of either party to the dispute, provided that such request be made within fourteen days after the submission of the dispute to the Council.

10. In any case referred to the Assembly, all the provisions of this Article and of Article 12 relating to the action and powers of the Council shall apply to the action and powers of the Assembly, provided that a report made by the Assembly, if concurred in by the Representatives of those Members of the League represented on the Council and of a majority of the other Members of the League, exclusive in each case of the Representatives of the parties to the dispute, shall have the same force as a report by the Council concurred in by all the members thereof other than the Representatives of one or more of the parties to the dispute.

### ARTICLE 16 ("SANCTIONS" OF THE LEAGUE)

1. <sup>1</sup> Should any Member of the League resort to war in disregard of its covenants under Article 12, 13, or 15, it shall *ipso facto* be deemed to

<sup>1</sup> *When sufficient ratifications have been received this paragraph will be replaced by the following four:*

Should any Member of the League resort to war in disregard of its covenants under Arts. 12, 13, or 15, it shall *ipso facto* be deemed to have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, and to prohibit all intercourse at least between persons resident within their territories and persons resident within the territory of the covenant-breaking State and, if they deem it expedient, also between their nationals and the nationals of the covenant-breaking State and to prevent all financial, commercial or personal intercourse at least between persons resident within the territory of that State and persons resident within the territory of any other State, whether a Member of the League or not, and, if they deem it expedient, also between the nationals of that State and the nationals of any other State whether a Member of the League or not.

It is for the Council to give an opinion whether or not a breach of the Covenant has taken place. In deliberations on this question in the Council, the votes of Members of the League alleged to have resorted to war and of Members against whom such action was directed shall not be counted.

The Council will notify to all Members of the League the date which it recommends for the application of the economic pressure under this Article.

Nevertheless, the Council may, in the case of particular Members, postpone the

have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a Member of the League or not.

2. It shall be the duty of the Council in such case to recommend to the several Governments concerned what effective military, naval, or air force the Members of the League shall severally contribute to the armed forces to be used to protect the covenants of the League.

3. The Members of the League agree, further, that they will mutually support one another in the financial and economic measures which are taken under this Article, in order to minimise the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State, and that they will take the necessary steps to afford passage through their territory to the forces of any of the Members of the League which are co-operating to protect the covenants of the League.

4. Any Member of the League which has violated any covenant of the League may be declared to be no longer a Member of the League by a vote of the Council concurred in by the Representatives of all the other Members of the League represented thereon.

#### ARTICLE 17 (DISPUTES WITH NON-MEMBERS)

1. In the event of a dispute between a Member of the League and a State which is not a Member of the League, or between States not Members of the League, the State or States not Members of the League shall be invited to accept the obligations of Membership in the League for the purposes of such dispute, upon such conditions as the Council may deem just. If such invitation is accepted, the provision of Articles 12-16 inclusive shall be applied with such modifications as may be deemed necessary by the Council.

2. Upon such invitation being given the Council shall immediately institute an enquiry into the circumstances of the dispute and recommend such action as may seem best and most effectual in the circumstances.

3. If a State so invited shall refuse to accept the obligations of membership in the League for the purposes of such dispute, and shall resort to war against a Member of the League, the provisions of Article 10 shall be applicable as against the State taking such action.

4. If both parties to the dispute when so invited refuse to accept the obligations of membership in the League for the purposes of such coming into force of any of these measures for a specified period where it is satisfied that such a postponement will facilitate the attainment of the object of the measures referred to in the preceding paragraph, or that it is necessary in order to minimise the loss and inconvenience which will be caused to such Members.

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dispute, the Council may take such measures and make such recommendations as will prevent hostilities and will result in the settlement of the dispute.

### ARTICLE 18 (REGISTRATION AND PUBLICATION OF ALL FUTURE TREATIES)

Every treaty or international engagement entered into hereafter by any Member of the League shall be forthwith registered with the Secretariat and shall as soon as possible be published by it. No such treaty or international engagement shall be binding until so registered.

### ARTICLE 19 (REVIEW OF TREATIES)

The Assembly may from time to time advise the reconsideration by Members of the League of treaties which have become inapplicable and the consideration of international conditions whose continuance might endanger the peace of the world.

### ARTICLE 20 (ABROGATION OF INCONSISTENT OBLIGATIONS)

1. The Members of the League severally agree that this Covenant is accepted as abrogating all obligations or understandings *inter se* which are inconsistent with the terms thereof, and solemnly undertake that they will not hereafter enter into any engagements inconsistent with the terms thereof.

2. In case any Member of the League shall, before becoming a Member of the League, have undertaken any obligations inconsistent with the terms of this Covenant, it shall be the duty of such Member to take immediate steps to procure its release from such obligations.

### ARTICLE 21 (ENGAGEMENTS THAT REMAIN VALID)

Nothing in the Covenant shall be deemed to affect the validity of international engagements, such as treaties of arbitration or regional understandings like the Monroe doctrine, for securing the maintenance of peace.

### ARTICLE 22 (MANDATORIES, CONTROL OF COLONIES AND TERRITORIES)

1. To those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the States which formerly governed them and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well-being and development of such peoples form a sacred trust of civilisation and that securities for the performance of this trust should be embodied in this Covenant.

2. The best method of giving practical effect to this principle is that the tutelage of such peoples should be entrusted to advanced nations who by reason of their resources, their experience, or their geographical

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position can best undertake this responsibility, and who are willing to accept it, and that this tutelage should be exercised by them as Mandatories on behalf of the League.

3. The character of the mandate must differ according to the stage of the development of the people, the geographical situation of the territory, its economic conditions and other similar circumstances.

4. Certain communities formerly belonging to the Turkish Empire have reached a stage of development where their existence as independent nations can be provisionally recognised subject to the rendering of administrative advice and assistance by a Mandatory until such time as they are able to stand alone. The wishes of these communities must be a principal consideration in the selection of the Mandatory.

5. Other peoples, especially those of Central Africa, are at such a stage that the Mandatory must be responsible for the administration of the territory under conditions which will guarantee freedom of conscience and religion, subject only to the maintenance of public order and morals, the prohibition of abuses such as the slave trade, the arms traffic and the liquor traffic, and the prevention of the establishment of fortifications or military and naval bases and of military training of the natives for other than police purposes and the defence of territory, and will also secure equal opportunities for the trade and commerce of other Members of the League.

6. There are territories, such as South-West Africa and certain of the South Pacific Islands, which, owing to the sparseness of their population, or their small size, or their remoteness from the centres of civilisation, or their geographical contiguity to the territory of the Mandatory, and other circumstances, can be best administered under the laws of the Mandatory as integral portions of its territory, subject to the safeguards above mentioned in the interests of the indigenous population.

7. In every case of mandate, the Mandatory shall render to the Council an annual report in reference to the territory committed to its charge.

8. The degree of authority, control, or administration to be exercised by the Mandatory shall, if not previously agreed upon by the Members of the League, be explicitly defined in each case by the Council.

9. A permanent Commission shall be constituted to receive and examine the annual reports of the Mandatories and to advise the Council on all matters relating to the observance of the mandates.

### ARTICLE 23 (SOCIAL ACTIVITIES)

Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League :

(a) Will endeavour to secure and maintain fair and humane conditions of labour for men, women, and children, both in their own countries and in all countries to which their commercial and industrial relations

## Appendix I

extend, and for that purpose will establish and maintain the necessary international organisations ;

(b) Undertake to secure just treatment of the native inhabitants of territories under their control ;

(c) Will entrust the League with the general supervision over the execution of agreements with regard to the traffic in women and children, and the traffic in opium and other dangerous drugs ;

(d) Will entrust the League with the general supervision of the trade in arms and ammunition with the countries in which the control of this traffic is necessary in the common interest ;

(e) Will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League. In this connection, the special necessities of the regions devastated during the war of 1914-1918 shall be borne in mind ;

(f) Will endeavour to take steps in matters of international concern for the prevention and control of disease.

### ARTICLE 24 (INTERNATIONAL BUREAUX)

1. There shall be placed under the direction of the League all international bureaux already established by general treaties if the parties to such treaties consent. All such international bureaux and all commissions for the regulation of matters of international interest hereafter constituted shall be placed under the direction of the League.

2. In all matters of international interest which are regulated by general conventions but which are not placed under the control of international bureaux or commissions, the Secretariat of the League shall, subject to the consent of the Council and if desired by the parties, collect and distribute all relevant information and shall render any other assistance which may be necessary or desirable.

3. The Council may include as part of the expenses of the Secretariat the expenses of any bureau or commission which is placed under the direction of the League.

### ARTICLE 25 (PROMOTION OF RED CROSS)

The Members of the League agree to encourage and promote the establishment and co-operation of duly authorised voluntary national Red Cross organisations having as purposes the improvement of health, the prevention of disease and the mitigation of suffering throughout the world.

### ARTICLE 26 (AMENDMENTS)

1. <sup>1</sup> Amendments to this Covenant will take effect when ratified by the Members of the League whose Representatives compose the Council

<sup>1</sup> *When sufficient ratifications have been received this Article will read :*

Amendments to the present Covenant, the text of which shall have been voted by the Assembly on a three-fourths majority, in which there shall be included the

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and by a majority of the Members of the League whose Representatives compose the Assembly.

2. No such amendment shall bind any Member of the League which signifies its dissent therefrom, but in that case it shall cease to be a Member of the League.

### (b) MEMBERSHIP OF THE LEAGUE

Conditions of membership of the League are governed by Article 1, Article 16 (4), and Article 17 (1) of the Covenant of the League of Nations.

The present membership of the League and the date of entry of Members into the League are as follows:

Abyssinia	.	.	.	.	September 28th, 1923.
Albania	.	.	.	.	December 16th, 1920.
Argentine Republic	.	.	.	.	July 18th, 1919.
*Australia	.	.	.	.	January 10th, 1920.
Austria	.	.	.	.	December 16th, 1920.
*Belgium	.	.	.	.	January 10th, 1920.
*Bolivia	.	.	.	.	January 10th, 1920.
Bulgaria	.	.	.	.	December 16th, 1920.
*Canada	.	.	.	.	January 10th, 1920.
Chile	.	.	.	.	November 4th, 1919.
China	.	.	.	.	July 16th, 1920.
Colombia	.	.	.	.	February 16th, 1920.
Cuba	.	.	.	.	March 8th, 1920.
*Czechoslovakia	.	.	.	.	January 10th, 1920.
Denmark	.	.	.	.	March 8th, 1920.
Estonia	.	.	.	.	September 22nd, 1921.
Finland	.	.	.	.	December 16th, 1920.
*France	.	.	.	.	January 10th, 1920.

votes of all the Members of the Council represented at the meeting, will take effect when ratified by the Members of the League whose Representatives composed the Council when the vote was taken and by the majority of those whose Representatives form the Assembly.

If the required number of ratifications shall not have been obtained within twenty-two months after the vote of the Assembly, the proposed amendment shall remain without effect.

The Secretary-General shall inform the Members of the taking effect of an amendment.

Any Member of the League which has not at that time ratified the amendment is free to notify the Secretary-General within a year of its refusal to accept it, but in that case it shall cease to be a Member of the League.

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\* An asterisk denotes that the State was an original Member of the League.

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†Germany . . . . .	September 8th, 1926.
Greece . . . . .	March 30th, 1920.
*Guatemala . . . . .	January 10th, 1920.
Haiti . . . . .	June 30th, 1920.
Holland . . . . .	March 9th, 1920.
Honduras . . . . .	November 3rd, 1920.
Hungary . . . . .	September 18th, 1922.
*India . . . . .	January 10th, 1920.
Iraq . . . . .	October 3rd, 1932.
Irish Free State . . . . .	September 10th, 1923.
*Italy . . . . .	January 10th, 1920.
†Japan . . . . .	January 10th, 1920.
Latvia . . . . .	September 22nd, 1921.
Liberia . . . . .	June 30th, 1920.
Lithuania . . . . .	September 22nd, 1921.
Luxemburg . . . . .	December 16th, 1920.
Mexico . . . . .	September 12th, 1931.
*New Zealand . . . . .	January 10th, 1920.
Nicaragua . . . . .	November 3rd, 1920.
Norway . . . . .	March 5th, 1920.
*Panama . . . . .	January 9th, 1920.
Paraguay . . . . .	December 26th, 1919.
Persia . . . . .	November 21st, 1919.
*Peru . . . . .	January 10th, 1920.
*Poland . . . . .	January 10th, 1920.
Portugal . . . . .	April 8th, 1920.
Roumania . . . . .	April 8th, 1920.
Santo Domingo . . . . .	September 29th, 1924.
San Salvador . . . . .	March 10th, 1924.
Serb-Croat-Slovene State . . . . .	February 10th, 1920.
*Siam . . . . .	January 10th, 1920.
*South Africa . . . . .	January 10th, 1920.
*Spain . . . . .	January 10th, 1920.
Sweden . . . . .	March 9th, 1920.
Switzerland . . . . .	March 8th, 1920.
Turkey . . . . .	July 18th, 1932.
*United Kingdom . . . . .	January 10th, 1920.
*Uruguay . . . . .	January 10th, 1920.
Venezuela . . . . .	March 3rd, 1920.

\* An asterisk denotes that the State was an original Member of the League.

† On March 27th, 1933, Japan gave formal notice of her withdrawal from the League. Germany gave notice of her withdrawal on October 19th, 1933.

The resignation of Brazil took effect on June 12th, 1928.

The resignation of Costa Rica took effect on January 1st, 1927 ; on September 22nd, 1928, she announced intention of rejoining.

## APPENDIX II

### NOTE ON THE GOLD STANDARD

It is interesting to observe as evidence of the profound changes in every department of life which have characterized Our Own Times that whereas in 1913 gold coins were in everyday use in Great Britain, and the utmost care had to be taken in order to avoid the economic error of giving a hansom-cab driver a ten-shilling bit instead of a six-penny piece, by 1934 the tendering of a gold coin in most shops caused the assistant to send for the manager "to make sure it was all right." In 1913 the whole populace was acquainted with the appearance, if not perhaps the use, of "sovereigns," whilst in 1934 they were museum pieces; in 1913 the average citizen was quite ignorant as to the meaning and purpose of the International Gold Standard, in 1934 everyone knew that "the Gold Standard" was a matter which had precipitated a great crisis in Britain, and many people—thanks to broadcast talks and numerous popular books—had a fair idea as to what the Gold Standard had been.

Nevertheless, since there is still uncertainty in many minds as to the theory and practice of the Gold Standard some notes on these matters will be found in this appendix. As we shall see in Volume II, it was the refusal of President Roosevelt to return to the pre-War type of gold standard which, more than any one cause, broke up the World Economic Conference, and at the close of Our Own Times the future of the world's monetary system was still both literally and figuratively in the melting-pot. Some observations and suggestions as to the future will be found in the concluding chapter of Volume II, but for the moment we will adhere to the method adopted throughout this book of describing whence we have come before we seek to see whither we may go.

## II

### *The pre-War International Gold Standard*

When the monetary arrangements of a state were "*on the gold standard*" certain conditions were fulfilled, and from their fulfilment there followed certain consequences. The conditions were these:

- (a) The note-issuing authority, usually the Government or a Central Bank, directly or indirectly under Government control, undertook to *buy and sell for currency at fixed prices an unlimited quantity of standard gold.*

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- (b) The small difference of price in favour of the central authority when it sold as opposed to when it bought gold existed in order to cover costs of handling, mint and assay. For instance, in 1913 the Bank of England was obliged to redeem its notes in gold on demand at the rate of one ounce of gold for every £3, 17s. 10½d. worth of notes. It was likewise obliged to buy any gold brought to it at the rate of £3, 17s. 9d. of its own notes per ounce.
- (c) Not only must persons be free to demand gold in exchange for local currency or demand local currency in exchange for gold as set forth in (a) and (b) above, but they must be free to import and export gold in unlimited quantities.

The consequences which arose from the fulfilment of the above conditions by the principal note-issuing authorities of the world were :

- (1) The foreign exchanges were maintained stable between narrow limits, since if an English pound, a French franc, a German mark and an American dollar were each irrevocably (or so it was believed) the equivalent of a certain weight of gold, it followed that there was a fixed ratio between pounds, francs, marks and dollars. Gold in such case was the common denominator, or standard, to which the value of a unit of local purchasing power was related in each country and related at fixed ratios to units in other countries.
- (2) The facts mentioned in (1) above had the effect in a general way of linking together the internal price levels in all countries on the gold standard into an international system. The explanation of this phenomenon was as follows :

Suppose that for one cause or another, such as inefficient management in industry, or a successful demand for higher wages by labour, costs of production in Great Britain on the gold standard rose sharply. This meant that whereas before the rise in the price-level one £1 of local currency would purchase a basketful of miscellaneous goods, the rise of prices meant that for this one £1 the buyer could now only obtain a basket three-quarters full of similar goods. If the buyer was a Frenchman he had been in the habit of changing 25 francs for £1 (the pre-War rate of exchange) before he made his purchases in Great Britain, since the Englishman desired payments in £'s and was not interested in francs. The Frenchman, observing that since the rise in prices in Great Britain his 25 francs when changed into £1 no longer purchased a full basket of goods but only three-quarters of a basketful, began to question whether he was getting value for his money by buying in Great Britain, and he sought to transfer his custom to (say) Germany, where we may suppose that due to rationalization of industry, costs were lower than in Great Britain.

An immediate effect in Great Britain was a reduction in exports and

probably an outcry that costs and hence prices must be reduced so that British exports might become competitive in the world market. Leaving aside such methods of reducing costs by forcing down wages or improving the efficiency of production, for we are now only concerned with monetary phenomena, let us return to our Frenchman. He was also in the world market as an exporter, and he wrote to his agent in London to the following effect: "The level of prices in France now being substantially below that in Great Britain, British consumers will be well advised to exchange their £'s into francs and purchase goods in France. For 25 francs (the equivalent in terms of gold of £1) better value is to be obtained in France than can be got for £1 in Great Britain." The consequence of the attractiveness of the French market to British buyers was an increase of exports from France to Great Britain, and as a natural result a debt owed by British to French. We have already noted that British exports had been checked and now British imports were being stimulated, so that over a period of time the visible British exports to France did not balance in value the imports from France.<sup>1</sup> There were only two ways in which the debt could be dealt with. Either the French creditors had to agree to allow it to remain as a French investment in Great Britain, or it had to be paid by the transfer of gold from Great Britain to France. It is with the latter solution that we are now concerned. If gold was shipped from Great Britain to France there was a decrease in the gold reserves of the former country and an increase in those of France.

Broadly stated, the quantity of purchasing power (currency and credit) available in Great Britain depended upon the size of the gold reserves at the Bank of England, since the volume of purchasing power, which was chiefly paper money and bank deposits, was controlled by the Central Bank operating through the machinery of the money market and the commercial banks. The various financial institutions had learnt by experience that they ought to regulate the amount of money they were prepared to lend in accordance with their balances of ready money or the size of their deposits at the Bank of England. If, therefore, the Central Bank lost gold there was a tendency on the part of that institution to restrict the supply of purchasing power, since the Central Bank always took care that its gold holding was equal to what it considered a "safe" proportion of the deposits which had been entrusted to it. Circumstances, too numerous and complex to describe in this note, caused the Bank of England's gold holdings to vary from time to time, but this fact, though of the utmost importance in the practical management of a gold-standard system, does not detract from the significance of the general statement that when gold flowed out of a country in order to rectify an adverse balance of payments on foreign account, the aggregate of means of payment in that country was likely to decrease.

<sup>1</sup> The disparity might be made up by the so-called invisible items, shipping charges, banking, insurance, interest on foreign investments.

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If this occurred, and if the rate of circulation of this purchasing power remained constant, the price-level in that country fell. It fell because money had become more valuable in terms of goods. This will be easily understood if we suppose a shopkeeper saying to himself: "I have still the same number of pairs of boots to sell, but I observe that money is becoming scarcer. I used to have no difficulty in exchanging one pair of boots for £2, but nowadays in order to get possession of £2 from my customers I have to offer them two pairs of boots—in other words, I must halve my prices."

The loss of gold from Great Britain to France would—other things being equal—tend to lower prices in Great Britain. In France the reverse process took place. The Central Bank reserves of gold increased and this enabled that institution to increase the amount of purchasing power available. An increase in purchasing power had the effect of raising prices in France. We thus had a deflationary action going on in Great Britain and an inflationary action taking place in France; prices falling in Great Britain and rising in France, and in practice these processes would continue until a natural adjustment was obtained and the flow of gold from Great Britain was checked because, the price levels being in equilibrium, exports and imports between the two countries balanced up.

This "natural adjustment" could be accelerated by certain action on the part of the Bank. When the authorities observed that they were losing gold they could raise the Bank rate, *i.e.* the rate at which the Bank would lend to private borrowers, and so tighten up credit right through the money system. This eliminated marginal borrowers, that is to say, those who had just found it profitable to employ money borrowed at the lower rate of interest no longer came into the market. There was, therefore, a fall in the amount of credit outstanding, and if velocity of circulation remained constant, a fall in the price level. Secondly, another effect of raising the Bank rate was to attract gold into the country through the arrival of foreign funds anxious to seek investment at the higher rates. This foreign money was liable to depart at short notice, and in the special circumstances of the after the War period became known as "bad money."

Another weapon or method by which the Bank restricted the volume of credit was by the use of open market operations, *i.e.* the selling of securities. By selling securities the Bank obtained possession of a certain proportion of the funds of the commercial banks, and the latter were thereby deprived of some of the resources on which they relied for making loans to borrowers.

## III

It must now—unfortunately—be pointed out that the above elementary and theoretical explanation of the working of the pre-War international gold standard, though useful as a general picture for the

reader approaching this subject *ab initio*, is not of much use as an account of how the matter worked in practice. The theory outlined above may be considered as existing at the heart of a mass of practice which, whilst broadly conforming to theory over a period of time, often operated in apparent disregard of the over-simplified doctrine we have just described. It is as if one were to describe the Government of Great Britain in the simplest possible terms of King and Parliament, and omit the influence of the Civil Service, not to mention other methods by which in fact the day-to-day government of the Kingdom is conducted. In theory Great Britain is governed by the people for the people, and broadly speaking and over a period of time this is true, but the influence of the electorate appears in legislation as a result of many complicated and tortuous processes. Similarly, even in the comparatively simple and theoretically automatic international gold-standard system of pre-War days there was "management" by the Central authorities, in accordance with various traditional and empirical rules.

The influx or efflux of gold did not automatically increase or decrease the volume of purchasing power, and when this did occur there was not necessarily a rise or fall in the internal price level. The quantity theory of money is *not* the simple proposition that *More Money = Higher Prices: Less Money = Lower Prices*. That is part of the story, but one has only to reflect that it is not only the quantity of money but the rate at which it circulates which is significant in order to avoid the traps set by the over-simplifiers of whom the present writer is often a representative. (Confession is good for the soul!)

The velocity of circulation, which determines what is the "effective" volume of purchasing power in existence, depends on a number of vague factors which are best summed up in the word "confidence," which have always proved to be nearly uncontrollable by Central Banking authorities.

The Central Bank, on losing gold, might act in accordance with strict theory, and by raising its bank rate or/and selling securities, restrict credit and thus reduce by a substantial amount the purchasing power available. But it might decide to counteract the loss of gold<sup>1</sup> by buying securities in the open market and so increasing the amount of cash available to the commercial banks. This would enable them to maintain the level of their loans and hence the volume of purchasing power at the disposal of industry and commerce.

Again, it was always said of the pre-War gold standard that since, broadly speaking, the amount of purchasing power in the country depended upon the size of the gold reserve of the Central Bank, and since the size of these reserves was connected with the economic position of the nation relative to that of other members of the world's economy, this meant that monetary policy was "independent" of politics.

<sup>1</sup> Perhaps because it believed the gold movements were for political reasons, or because it felt that it could safely stand a certain loss of gold.

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In fact, both nationally and internationally, this theory was subject to important practical qualifications. In Great Britain the connection between "The Bank" and H.M. Treasury, if unofficial, was always very close,<sup>1</sup> and in time of grave crisis the Bank Act was suspended; that is to say, the Bank was allowed to issue more than the normal quantity of notes without having the necessary quantity of gold in its vaults as a reserve to its note issue. More important was the fact, to which attention has already been drawn in this volume, that in pre-War days the international gold standard was in practice managed from London. But, having emphasised and illustrated with one or two examples the difference between theory and practice, we can sum up this section of our note by stating the following propositions:

- (a) The international gold standard in the pre-War period resulted in stable foreign exchanges.
- (b) It was impossible for the price level in any one country which adhered to the rules of the gold-standard game to be for any considerable period out of step with the general level of world prices.
- (c) The gold standard as managed in pre-War days did not ensure stability of the general price-level over a period of time. The position of this level was in part influenced by the accident of new discoveries of gold and the consequent rate of increase of the world's monetary stocks of gold, and in part by the use made by Central Banks of those stocks, in relation to the increase in the world's trade and productivity. It is important to bear in mind that the pre-War gold standard only came into extensive use *after* a period of expanding international trade had brought national price-levels into harmony. The gold standard orchestrated for use by an international orchestra an existing and harmonious composition.
- (d) The necessary degree of international co-operation which was needed to make the gold standard work in pre-War days was provided through the persuasive autocracy of London.

### IV

It was to some such system that the Brussels Conference (1920) and the Conference of Genoa (1921) urged the world to return as the best way out of the international monetary chaos which had been caused

<sup>1</sup> Nevertheless, one of the most important developments of Our Own Times has been a transference of power in monetary policy from the Bank to the Treasury. The establishment of the Exchange Equalization Fund in 1932 (its size was increased in 1933 to £350 million) was one of the signs of this post-War shift of the centre of power. The Governor of the Bank of England is said to have told a meeting of Members of Parliament that the difference between the Bank and the Treasury (in 1932) was that between Tweedledum and Tweedledee.

by the War. But, as events were to prove, this was easier said than done, and the difficulties may be classified under two headings: firstly, those directly due to the War; and secondly, those produced by a widespread change of opinion as regards the relative importance of political and economic considerations. The War difficulties arose from the great changes which had occurred in the world's balance-sheet of debtors and creditors. The gold reserves of the world had been migrating, and whereas, for example, in 1913 the U.S.A. owned about one-fifth of the world's total of monetary gold, in 1921 she owned two-fifths of the total. The existence of immense War debts and reparations, debts of an uncommercial nature, was another abnormal feature which was bound to throw a heavy strain on the stability of the exchanges when and if transfers were made. These and similar difficulties were so great that they far transcended in magnitude any with which the old type of gold standard had occasionally grappled (under the leadership of London) during the latter half of the nineteenth century.

It was, of course, immediately recognized in August 1914 that it would be absurd to suppose that the international gold standard, which was essentially a series of devices and conventions for the furtherance of international commerce, could remain in being. Together with much else which had seemed as eternal as the sun in the heavens, the international gold standard had disappeared into the maelstrom of war. To endeavour to refashion the golden calf and set it up on high after the War was a vain ambition unless the Central Bankers and Governments in all important countries were prepared to join hands in the traditional dance around the image. Some authorities would go farther than this and say that until the Bankers were dancing and until the price structures of the important countries were in harmony and stable relationship it was futile to set up the golden calf. This brings us to the second set of difficulties mentioned above. We have given reasons in this volume for our belief that the increased intervention of the state into economic life and that rapid technical advance we have called the second industrial revolution were phenomena looming over the horizon of the twentieth century and speeded up by the War.

The pre-War international gold standard presupposed that states recognised their economic dependence upon each other in a free-trade, *laissez-faire* world, and that when a state lost gold it was a sign that its price-level was too high and so its monetary authorities must busy themselves with putting into force a policy of retrenchment and lowering of prices. It presupposed that the economic structure in each country would be sufficiently flexible to allow of this possibly unpleasant process being carried out. Unpleasant, because it might mean lowering of wages, checking of business expansion, unemployment, losses, budgetary retrenchment of national expenditure, increase of taxation—in short, doses of all the nauseous remedies in the medicine cabinet of deflation. But the post-War period people failed to understand why they should

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starve in the midst of plenty, even as prelude to renewed prosperity, and governments found it even harder to reduce expenditure on social services than to reduce the interest on the internal debt, whilst wage reductions could only be obtained after bitter industrial struggles. Coupled with all this was the growth of the desire to be nationally self-sufficing which often accompanied a young and ardent feeling of political nationalism.

The War did much to stimulate the worship of national "sovereignty," and the international gold standard in all its variations was the most subtle "de-sovereigniser" ever devised. It was far superior in this respect to the Covenant of the League, which hints openly at derogation of national sovereign rights; the gold standard, when in full working order, ate the economic heart out of sovereign rights and left only the shell to be revered and admired by flag-waving patriots.

In summary, the main difficulties of restoring the international gold standard in 1920, either in its pre-War form or with modifications, arose firstly because this device presupposed a willingness to co-operate internationally, which, if it existed in the minds of Central Bankers, was conspicuously absent from those of politicians, who necessarily paid close attention to the views of the electorate. Secondly, even when the time seemed ripe for a restoration of the gold standard in principle, it was evident that the international economic system, to which it was hoped that a modified gold standard would restore much-needed stability, was going to be far less easy to control than it had been in pre-War years. For one thing, the City of London—as events proved<sup>1</sup>—could no longer exercise undivided control, a circumstance which, in the absence of any one authority similarly qualified, necessitated the creation of some organisation for the co-ordination of national monetary policies. For another, the control would have to be exercised in a world from which free competition and *laissez-faire* was rapidly disappearing. But in addition to those difficulties of the future the restoration of the standard raised an immediate problem of great intricacy. At what parity should the various currencies return to gold? What should be the price at which each Central Bank should undertake to buy and sell gold? One answer would have been—the pre-War price, and this was, in fact, the solution adopted by the British Government; but this way out was impossible to the countries such as Germany, France, Austria, Hungary and Italy, whose currency had been grossly inflated for War purposes. They had to devalue their currencies and in some cases to create new currencies. Now, although from one point of view the gold value which any given state chooses to give to its minted currency is a matter of domestic politics, and indubitably an attribute of sovereignty, it is also a matter of international concern if the new value undervalues the currency when regarded from the point

<sup>1</sup> See Vol. I, Chapter xx.

of view of the relation between the price-level in that country and world prices. It is easy enough to say that if these countries are about to resume operation of the gold standard, the gold parities at which they fix their currencies, and hence the rates of exchange, should reflect the relationships of their several price-levels; but in practice it is impossible to ascertain exactly the relative purchasing powers of various currencies. The revaluation of currencies has to be done empirically, and errors, either deliberate or accidental, are almost certain. There is now general agreement that when Great Britain returned to the gold standard in 1925 the £1 was overvalued, that is to say, when the £1 was "made to look the dollar in the face" its external value was thereby fixed at a higher level than was justified by the level of internal prices, and severe deflation (one of the causes of the coal strike which led to the General Strike) was necessary to make British exports competitive. When, on the other hand, the franc was devalued and relinked to gold at a level which made the Franco-British exchange 124.21 francs to the £1, the franc was undervalued, giving to French exports an "unfair" advantage in the world market.

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Notwithstanding the difficulties mentioned above, an international gold standard had been re-established by the end of 1929. It differed in several important details from its pre-War prototype. In a number of countries the circulation of gold coins had ceased, and for all practical purposes the internal convertibility of paper money into gold had ceased to be important. In Great Britain the Act of 1925 relieved the Bank of England from the obligation to deal in gold in amounts smaller than 400 ounces. Secondly, in order to counteract the abnormal distribution of gold stocks the supplementary device of the gold-exchange standard came into being. In this system certain countries (*e.g.* Austria, Czechoslovakia, Italy, Rumania and others) held as part of their legal reserves, against which they issued paper money, obligations payable at sight in foreign currencies which were legally exchangeable into gold.

Finally, there was some recognition of the fact that the effective management of an international gold standard necessitated close co-operation between the Central Banks. This fact was more clearly recognised in the Bank parlour in London than in some of the other monetary centres.

We have already indicated some of the difficulties of restoring the gold standard as an integral part of the post-War world economic system, and by the end of 1929, just as the list of countries which had returned to the gold standard was becoming complete, the agricultural countries of Australia, Canada and the Argentine felt themselves obliged under the growing pressure of the world slump to prohibit the export of gold. By this act they broke one of the most important rules of the gold-standard game. Only by a most extraordinary and unprecedented

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degree of international economic co-operation could the newly restored gold standard have been maintained during the crisis years, and since, under the onslaughts of the crisis, the nations sought safety down the paths of isolation, the operation of the gold standard became progressively difficult until its abandonment by Great Britain in 1931 closed another chapter in world monetary policy.

It is most probable that in due course some international monetary system more clear cut than that at present (1934) prevailing will take shape, but it is likely to differ in many respects from the gold standard as understood during the latter part of the nineteenth century. The American experiment inaugurated by Roosevelt of variable parities between upper and lower limits may be adopted elsewhere, as a compromise between the desire of being able to adjust the value of the currency in order to maintain stable internal prices and the desire to avoid extreme fluctuations in the external value of the currency.

But, whatever be the technical details of the future of world money, whether there be a gold *bloc* and a sterling *bloc* and a dollar *bloc*, or whether there be some fusion into a world system, it is clear that in the future there will have to be a far greater degree of conscious co-operative monetary management on an international basis if money is adequately to fulfil its international function of assisting men to exchange goods across national frontiers.

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